

THE SUSTAINABLE CENTURY:

AMERICAN COMPETITIVENESS, REPATRIATION TAX POLICY and an EFFORT TO
SPUR ENERGY INVESTMENT and JOB CREATION in THE UNITED STATES

by

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Thank you.

Abstract

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In the months leading up to the November 2008 election the adoption of major energy legislation in the United States seemed to be a foregone conclusion. Both major candidates for the Presidential office campaigned on a platform that included Cap and Trade Legislation as a key solution to the major challenge of both Global Warming and Jobs. Coalitions from the private sector that included utilities, manufacturers and a broad array of others came together to try and influence what the pending legislation would entail, but also took it to be a foregone conclusion. States across the country passed their own energy legislation in anticipation of the federal policy. North Carolina was such a state, creating a Green Business Fund in 2007, later passing a major policy with Senate Bill 3 to set Energy Efficiency and Renewable Energy adoption goals and enacting NC General Statute 113B-2 which created a strengthened state Energy Policy Council.

However, three years after a historic election that promised to usher in a new energy economy built on innovative legislation, the pendulum of change seems to have swung in a different direction. Following the mid-term elections of 2010 that saw a political upheaval, there are greater questions than ever as to what US energy legislation in the future will look like. The general public seems to have lost its interest in major energy legislation that is sometimes deemed as “job killers” by skeptics, as Americans struggle with unemployment, foreclosures, and financial difficulties unprecedented since the Great Depression. In the meantime, U.S. based corporations are experiencing unprecedented profit growth overseas and in 2011 have more than \$1.2 trillion in cash and short-term investments on their foreign balance sheets.

Everyone agrees that having trillions of dollars abroad, sitting idle and doing nothing, is not good for anyone; however, few can agree on the best route for bringing those dollars back to the U.S. American corporations argue that the current repatriation tax rate of 35% is too high and insist that a tax holiday similar to the one given in 2004, which allowed them to return capital at just over 5%, is more appropriate. The federal government, particularly the Executive Branch, and many objective studies have argued that the 2004 tax holiday was a disastrous failure, and though \$312 billion was repatriated as a means to create jobs, that few jobs actually followed.

This Master’s Project seeks to offer a well-thought-out policy proposal that would allow American corporations and the U.S. Government to meet halfway and achieve an agreement on repatriation. Through analysis of past and present legislation, as well as research into current efforts, it is possible to turn the “U.S. repatriation problem” into the “U.S. repatriation solution” addressing issues such as American competitiveness and unemployment through large-scale investment in the green economy. A proper strategy has the potential to transition America from past leader of the carbon-based 20th century to contemporary leader of the Sustainable 21st.

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PREFACE:

I began doing research and exploring the concept of a financial instrument I referred to as a “Repatriation Bond” in fall 2010. Over the course of the months that followed, a number of folks heard me loosely describe a model that would connect repatriation of foreign corporate profits with social and environmental investments in the United States, with a particular focus on low-income and high unemployment regions. Though I began this exploration in earnest, interest in the concept ultimately made it to the White House. The idea of possibly utilizing repatriated funds to support rural economic development was fascinating enough that several officials wanted to learn more about the idea. A day prior to the start of Fourth of July Weekend 2011, as I vacationed with my family in Myrtle Beach, South Carolina, I received a late afternoon telephone call from a colleague at a federal agency in Washington, DC. The White House officials wanted to know if I could submit an outline of my proposal to them by the following morning for possible consideration by the Administration.

Working at poolside, as the sun set over the beach, I worked into the night on a memo that outlined the idea of a “Repatriation Bond.” I submitted it to my federal colleague at 2 a.m. He added an opening section to the memo focused on a more direct investment approach of repatriated dollars, did some other merciful edits needed after my rapid turnaround, and then submitted the memo to the Administration on our behalf for consideration.

The *actual* “Repatriation Bond Memo” submitted by me to the White House for consideration by President Obama on July 1, 2011 is included as a part of this Preface (Figure 1), with a few names removed simply to protect the innocent. Other than those expulsions, it is in its original form and therefore admittedly rough. As I mentioned, there was an extremely quick turnaround

on this document. However, I included it as an opening to this Master's Project because it is part of the tapestry that has made up this idea and this story. Since I submitted this, a lot has changed with my thinking. Though the general concept and principles of the idea remain the same, I would like to think that the specifics of the idea have been more refined in the interim – from July 1, 2011 when I submitted this memo to December 1, 2011 when I submitted this MP.

I thought by introducing this paper this way, the reader might gain some context as to the nature of the research attached to this project. The following sections in this paper will take the reader back to the beginnings of this notion before bringing them forward again to the present with my current recommendations which have expanded beyond what was originally included in the Figure 1 Memo to include both short- and long-term policy proposals.

I would be remiss if I did not also use this Preface to offer the Standard Disclaimer. I am a public servant and public figure and therefore am held to the standards of such. I proudly accept those roles and the accompanying responsibilities and take them very seriously. However, in the context of this Master's Project, I am also a private-citizen and student finalizing the requirements of a degree. It is in that vein that I write this. Therefore, though I reference my position in this document – as it would be nearly impossible to tell the story without doing so – the words, perspectives, and opinions contained herein related to this specific policy and any others are my own and do not represent the official or unofficial positions of the State of North Carolina, the North Carolina Governor's Office, or the North Carolina Department of Commerce, or any of its associated officials. Thank you for understanding this distinction.

Henry C. McKoy, Jr.
Durham, North Carolina
December 1, 2011

FIGURE 1: REPATRIATION MEMO FROM MCKOY TO WHITE HOUSE

MEMORANDUM**TO:****FROM:** Henry C. McKoy, Assistant Secretary, North Carolina Department of Commerce**DATE:** Friday, July 1, 2011**SUBJECT:** Addressing Capital Gaps in Underserved Rural Areas through Repatriation of Corporate Earnings**Background**

It is reported that American corporations with foreign operations have a collective \$2 trillion in undistributed foreign earnings, or cash held in overseas subsidiaries that can only be repatriated with significant tax consequences. Of these corporate foreign reserves, \$1.2 trillion is estimated to be held abroad by S&P 500 firms. For example, Google has \$35 billion in offshore profits, Cisco has a reported \$30 billion, and General Electric has \$94 billion in cash held overseas.

As the global economy has become more competitive and other nations have vied with America for corporate operations, some of that competition has been played out around tax incentives. While America has a long-standing “repatriation” tax rate of 35%, many foreign countries have been willing to tax those company profits at rates as low as 2-, 5-, or 7%. This discrepancy in tax rates has created a growing tension between the U.S. federal government and U.S. corporations.

American corporations argue that 35% is too high a rate to charge and that they have more options than ever to keep their profits and investments overseas. They state that as America faces nearly 10% unemployment, this is an ideal opportunity for the federal government to allow companies to repatriate their funds at reduced rates (ideally around 5-5.75%). Corporate leadership contends that federal officials are overlooking what could be a trillion dollar “stimulus” that could put dividends back in the hands of investors, or be invested in plant, equipment, and new product development - ultimately creating high quality jobs in the U.S.

The U.S. government states that corporations have a civic duty to pay their fair share of taxes on profits that are returned to America. While the government agrees that 35% may not be the right tax rate for repatriation of corporate profits, officials contend that the only way to arrive at the right figure is through comprehensive tax reform. In addition, the federal government points to research related to the 2004 Repatriation Tax Holiday (i.e. Homeland Investment Act of 2004)

where corporations were allowed to bring profits back to America at a 5.75% rate. This data indicates the Tax Holiday was a failure because the funds brought onshore did not lead to the anticipated job creation. In addition, in times of record deficits, the opportunity cost of forgoing over half a billion dollars in lost revenue seems potentially irresponsible and dangerous for the Administration.

Top American corporations have formed a coalition aimed at convincing the Administration that now is the time to deal with repatriation and any delay attached to the desire for large scale tax reform will be detrimental to the opportunity for a U.S. recovery driven by the repatriated funds. Corporations seek similar legislation from 2004 that would allow them to repatriate funds at roughly 5-5.75% tax. They do not want any “strings attached” this time, as in 2004, that requires them to create jobs or invest in certain kinds of projects. The feeling of the Coalition is that the American government should see this as an opportunity to get \$50-75 billion in revenue for the U.S. Treasury plus the dividend that will go to investors. The corporations contend that with many choices for them to invest capital abroad, there is no good reason to bring the money back to the United States at the current tax rate. Therefore, the \$500 billion or so in lost federal revenues are only phantom revenues that the U.S. will never see. Corporations say that it is more prudent to borrow capital at historic low interest rates to do capital projects while receiving a tax deduction on interest payments, than it is to repatriate funds at current tax rates.

Proposals

The North Carolina Department of Commerce and the Appalachian Regional Commission have been working jointly on unique models that could satisfy both the desire of American corporations to repatriate funds at a reduced rate AND the U.S. government’s desire to create jobs and investments for an American economy that sorely needs it. These concepts include: 1) targeted investment in underserved communities; and 2) creation of a ‘repatriation bond’.

I. Targeted Investments:

Funds may be repatriated at attractive rates if a portion of the funds are invested in underserved areas. For example, for every \$1 of capital repatriated and invested in Low Income Communities (perhaps using the New Markets Tax Credit definition), a corporation could repatriate \$10 at attractive rates. Corporations would be responsible for making these investments, subject to IRS review, which could be made in several ways, including: directly in their own corporate facilities located in Low Income Communities; investments in or purchase of other businesses and non-profits located in Low Income Communities; investments in specialized financial instruments that target funds to Low Income Communities; or through financial intermediaries such as CDFIs, CDEs, Credit Unions and CDCs that operate in Low Income Communities.

Since underserved communities and businesses often describe the need for equity investment as their top priority, a differential rate of leverage could be applied to debt and equity investments.

Loans to the asset classes described above that are located in Low Income Community could result in the ability to repatriate \$7 in undistributed foreign earnings for every \$1 loaned, while equity investments in LICs could allow for the repatriation of \$10 in corporate foreign earnings for every \$1 invested or granted.

In this fashion \$1 trillion of repatriated funds would result in \$100 billion of new investment in underserved Low Income Communities across the nation. These funds would be brought back to help rebuild America's neediest communities, to create jobs where we need them the most.

II. Repatriation Bond:

Create a private financial instrument in which American corporations can invest, perhaps called a "Repatriation Bond" or a "Rebuild America Bond", that mirrors the Administration's Social Impact Bond concept. In this proposal a private sector intermediary (venture capital firm; private equity firm; bank; etc) would create a Social Impact Bond or Social Impact Bond Fund. Corporations could invest in the Bond or Bond Fund, which must be qualified by IRS, in order to repatriate overseas funds at attractive rates. The purpose of the bond would be to target private capital to local opportunities that could be invested in any number of assets classes and types, subject to certain geographic restrictions. For example, a Bond Fund may invest in rural America, or the Appalachian Region, or the Delta Region, or in HUD Non-entitlement communities, either directly or through a CDFI, CDE, or CDC. This Bond could invest in a broad range of sectors or may be focused on certain industries, such as clean tech or renewable energy, as do many investment funds.

For example, Investment Firm A may create a \$1 billion Sustainable Community Energy Bond targeting rural North Carolina, with anticipated returns from its expected investment classes; perhaps a 13-year bond that pays Treasury rates plus 1%. The Bond may be structured to invest in clean energy projects, including infrastructure, housing, and small business – all of which relate to energy-efficiency or renewable energy production. The Bond might invest in a Fund of Funds to achieve its goals, may do direct investments, or might co-invest with others. A portion of the Bond might support research or non-profit activities while the rest could be invested in profit making entities. Like any other financial instrument, it could be structured in any number of ways – this is simply an example.

Investment Firm A then takes the Bond to market. The target market for this Bond are American corporations who desire to repatriate funds. Though this transaction would be a private sector transaction, the U.S. government would create legislation that allows a corporation to invest in the following manner: for every \$1 that Corporate Social Bond Buyer A spends on the bond, it would be eligible to repatriate \$3 or \$5 or \$10 at attractive tax rates. The amount repatriated at attractive rates could be based on the level of distress of the communities targeted by the Bond, such that an area with 30% poverty might enable the investor to repatriate \$3 per \$1 invested,

whereas an area with a 50% poverty rate might result in being able to repatriate \$10 per \$1 invested.

Using this example, if Investment Firm A raised \$1 billion to invest in a rural North Carolina Sustainable Communities Bond, then Corporate Social Bond Buyers could potentially repatriate up to \$10 billion in earnings at attractive rates, say 5%.

Investment Firm A would then be free to invest these funds as any investor would who seeks to maximize their return on investment, with the return on this investment being measured in social, environmental and economic impacts. If Investment Firm A promised a 5-7% rate of return at maturity, then it must meet that if it wants to remain credible and sell additional bonds and instruments in the future. This \$1 billion in Bond proceeds would then be invested in job creation, small businesses, infrastructure, housing, etc. without any government restrictions except those specifically attached to geography. The \$10 billion that Corporations repatriated could be used for any purpose they like, including dividend payments and capital investment.

In this model, Corporate Social Bond Buyer A has reduced their risk by bringing capital back to the U.S. at a reduced rate. A secondary risk mitigated could be that Corporate Social Bond Buyer A might be able to take any Bond losses (from principle invested, not interest) against future foreign profits. For example, if Corporate Social Bond Buyer A buys \$100 worth of bonds in Year X with a 5% coupon rate in Year Y, then they would have \$500 in repatriated funds to do what they please. In Year Y at Maturity, if the Bond has performed then it will return \$107 to Corporate Social Bond Buyer A. However, if it lost money and instead Corporate Social Bond Buyer A's \$100 investment is only worth \$87 at Year Y, the Bond Buyer A will get a \$13 tax-credit against future repatriations of funds. In this scenario everyone wins. These bonds could also be tradable which will create liquidity in the marketplace.

This is a win-win scenario for the public and private sectors. Here are highlights of the anticipated benefits to various stakeholders:

- **Government:** Receives tax income into the U.S. Treasury from repatriated funds that might not otherwise have returned to America. Increases investment in underserved areas. Creates a model that can ensure a steady stream of tax revenue even as American corporations grow overseas.
- **Corporations:** Corporations are able to repatriate funds at a greatly reduced rate through a long-term vehicle that is stable without having to promise job creation commitments or a specific use of those funds ("low-strings" but not "no-strings"). Corporations reduce risk through the "future tax-credit" provision on Bond losses, while Bond investments have the potential to return a profit. The Corporations themselves get to choose their money manager and what type of Social Impact Bond they invest in (as long as it is a qualified fund). Corporations also can market themselves as socially and environmentally conscious via this investment vehicle.

- **Obama Administration:** This model could provide much needed investment in the economy and into many of the administration's programs without directly increasing the national debt. For example, the Social Impact Bond (SIB) is something that has been promoted under the Office of Social Innovation within Domestic Policy. This model expands the notion of the SIB to include for-profits, not just not-for-profits. Bonds could be built around initiatives like Start-Up America, Sustainable Communities (HUD), Rural America Initiative, Recovery Through Retrofit (DOE), Healthcare, Education, and any number of areas within the Administration. A Sustainable Community Energy Bond would impact social, energy and small business. This model could provide a long-term source of capital to support those kinds of programs and the President's Agencies and Programs (ARC, Delta Region, Southeast Crescent, HUD, USDA, DOE, etc). This would also demonstrate that the Administration is willing to work in partnership with Corporate America to create jobs and opportunity in the U.S. This is a model that the Office of the Secretary of Defense has stated could give defense contractors a way to invest alongside the Department of Defense on creating conservation easements around military bases to allow for continued training exercises while also helping to develop local communities for veterans and soldiers to live.
- **Democrats/Progressives:** This proposal does give a tax break to corporations; however it does so with direct benefits to social and environmental causes. For example, Bond Funds could invest beside ARC dollars, Delta Dollars or HUD CDBG dollars.
- **Republicans/Conservatives/Tea Party:** This proposal effectively reduces the tax-rate that corporations pay. And although social and environmental programs are supported, this program would allow the market to make the decisions. The Federal Government would not pick what organizations get the investments, nor would it over-regulate this system. This model does not increase the Federal Debt, but by focusing on social and community needs it increases the wealth of communities and allows for across the board lowering of tax rates for all citizens – including the wealthy. In addition, federal dollars would be able to leverage significant private capital, something that conservatives should like.
- **Small Business:** The capital that is repatriated to support these Bonds could be leveraged as risk-based and innovation capital in a climate where capital is still scarce. Bond investments could enable small businesses to have access to more flexible capital to grow and hire employees, particularly in communities hardest hit by the recession.
- **Local and State Government:** In 2009 when ARRA was provided to States with the instructions to send it down to the local governments it seemed like a great idea. However, many local governments were not prepared for billions to come to them in areas like Energy. This caused many local governments to scramble to try and understand the new programs and come up with projects that would qualify for investment. Two years later, many more local governments understand energy and energy-efficiency and now have exciting ideas to further innovate in their communities,

yet the stimulus money is ending just as they are hitting their stride. The idea for the Sustainable Communities Energy Bond was framed specifically to pick up where ARRA left off, to continue to drive future energy investment in local communities around economic development opportunities. Local and State governments who are squeezed at every corner would welcome more flexible funds being invested in their communities.

- **American Citizens:** As the American economy faces enormous roadblocks to recovery, it is the American Citizens who are struggling with the day to day reality. They are not likely to look favorably if the Government gives a huge tax break to corporations which are experiencing record profits and have figured out how to return to pre-recession productivity - without adding workers. For example, John Chambers, CEO of Cisco, is one of the most ardent supporters of the idea of repatriating funds (Cisco is reported to have 90% of their earnings overseas). Despite enormous profitability and continued growth, Cisco recently announced that it would lay off at least 7,000 employees. Cisco has not indicated that it would reverse that decision even if it was given a favorable repatriation opportunity. However, the American public would welcome a way to invest in job creation in innovative ways.

Additional Opportunities: Philanthropic Investments

The Social Impact Bond concept can be funded not only through an innovative system of foreign profit repatriation, but could also be funded from domestic philanthropies. With the right incentives, U.S. foundations could invest in SIBs as a new asset class. For example, Foundation Social Bond Buyer A could purchase a \$100 bond for its corpus just as Corporate Social Bond Buyer A did. Major foundations invest their endowment in equities and debt to ensure they can give into perpetuity at least at the 5% regulated rate. These foundations are now attempting to better align their endowment investments with their program investments. In the earlier example, the Sustainable Communities Energy Bond would support a number of foundation's program goals, as well as the larger vision of creating wealth in communities in such a way that it would reduce the need for certain health and education programs.

Foundation investments could also be structured to receive benefits on Bond losses similar to those provided to corporate investors. For example, Foundation Social Bond Buyer A could buy the same bond that the corporation purchased and wait until Year Y for it to mature. If the bond matured as it was advertised, then the Foundation would have a rate of return that was north of Treasuries while also addressing social and environmental issues. However, if that same bond only returned \$87, then the foundation could receive a "credit", in this case to be taken against the foundation's annual 5% giving requirement. In the event of an \$87 return, Foundation Social Bond Buyer A would be allowed to amortize those losses over a period of time, providing only 4% in annual giving over a 13-year period to return the principle (not lost interest) to the endowment. This is the equivalent of removing the risk from the Foundation for investing in such an instrument.

Conclusion

Though the figures used in this paper were intentionally small (\$1, \$5, \$10, \$100, \$500, etc), they represent very large numbers. \$1.7 trillion in overseas profits has the potential under this proposal to return \$75-\$100 billion to the U.S. Treasury through tax revenue, while bringing from \$150-\$225 billion in capital into funds that support social impact bonds that can be invested in infrastructure, housing, small business, energy, ARC, Delta, etc. This estimate only takes into account the repatriation opportunity now. There is no reason to believe that foreign earnings will not continue to grow, allowing for more capital to invest in America. In this scenario, if a compromise can be achieved, then everyone wins.

Starting in September 2010, conversations began taking place between the North Carolina Department of Commerce and corporate treasurers of Fortune 50 corporations. ARC became a part of the dialogue about a pilot not long after. Those conversations continued through July 2011. Much intelligence has been gleaned from these conversations about potential compromises that corporations are willing to make, including an idea like investing in specialized vehicles for repatriation. Such legislation would not need to be permanent initially. Legislation could be sunset after 5, 7 or 10 years if not reauthorized – though bonds could stretch out to as long as 20 or 30 years, or shorter.

What has been made clear is that the preferred option of the corporations is to be allowed to bring back all the overseas funds at 5% with no strings attached regarding use of funds. However, what is also apparent is that if that happens for a second time in 7 years (Homeland Investment Act) then they will never feel a need to pay the full rate again to repatriate dollars. Despite these challenges, several Fortune 50s have indicated willingness to compromise on the subject regarding investment in a fund if that was a condition.

North Carolina, through the Department of Commerce, has been working on the concept of a Sustainable Communities Energy Bond and is interested in piloting such a Social Impact Bond in connection with possible repatriation legislation, becoming the first in the nation to do so. North Carolina is interested in investing in its most distressed regions around sustainability, largely rural in scope. North Carolina's ARC region would see investment under such a scenario. This pilot is impossible without a partnership with the federal government and the Obama Administration.

North Carolina Department of Commerce is available to further discuss these topics.

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1 Introduction

1.1 By Way of Background

I have decided that the best way to begin this paper for the reader is not through an introduction of the topic, but instead through an introduction of myself. I made this determination because it is almost impossible to separate the subject of this paper from my personal history. By way of background I am a former community banker whose banking and professional career began in the mid-90s just as interstate banking laws were transforming a retail banking industry once constrained by state geography into national and eventually international behemoths. As a member of a fast growing North Carolina banking institution, I was able to witness this growth first hand. After a decade in banking I made the decision to step away from that side of the financial marketplace. Through the launch of a boutique financial advisory firm, I entered the world of energy-and-environmental-related investment in the mid-2000s when there was still a novelty to the sector. I was born in the early 1970s, so was too young to remember the oil crises of that decade, however I am old enough to remember when gas was well under a dollar and old enough to have watched it move well north of that in what seemed like an instant. Again, being too young to remember the birth of the environmental movement, my own environmental consciousness came during my undergraduate years at the University of North Carolina at Chapel Hill where I began as an economics major before obtaining my degree from the undergraduate program at the business school. However, I walked into the environmental space through a different door.

I grew up poor in rural North Carolina. I grew up with the same determination that I am sure that many others in my similar situation grew up with. I grew up with the determination that I would use whatever talents and gifts I were given to try and make life better for me, those around

me, and even for those whom I would never know. In short, I wanted to make the world a better and more prosperous place for all. Therefore, I grew up with a lens that visualized everything through the prisms of equity and economics – probably in that order. That prism only grew in college as I began expanding my vision of impact.

Like millions of other college students, I dreamed of making a difference on the planet that we all share. I imagined that such an endeavor would have to take place through the economic realm via some sort of shared monetary prosperity. Moreover, my world was no longer confined to rural North Carolina, or even the United States, but in a sense had become “globalized,” even before the term became ubiquitous in the modern vernacular. Thus, I dreamed of how economic growth, business expansion, and capital flow could be utilized to expand the financial well-being, and consequently the standard of living and quality of life for billions across the planet. This, I felt, would then address the equity issue. Consequently, I had elevated equity and economics to equal realms in my purview of change. But just as quickly as I had elevated economics to an adjacent standing as equity, a third “E” rushed to my mind. As an American, the only experience I could fully speak of with some certainty was American Capitalism, which was driven largely through consumption – particularly during the early nineties when I was in college and access to credit became more widespread – even for an unemployed college student such as myself. In building a simple economic model in my mind, I realized that if the only way that billions of other people on the planet, many living on less than \$1 or \$2 a day, were to reach economic equity (even relatively speaking) was through the mass consumption model of the United States and other developed economies, then the very resources, most of them being our natural and environmental resources, could not bear such an onslaught. I deduced that not only would our environmental resources be destroyed, but soon thereafter, so would our world’s

economic system. Though I did not know it at the time, dominant in my mind was the phenomenon that I would later be introduced to as “the Tragedy of the Commons,” first introduced by ecologist Garrett Hardin in the journal *Science* in 1968.¹ In this scenario, individuals acting in their own self-interests across the planet would consume us all out of our economic foundation leaving us all the worse in the long-run, even if it benefited a majority in the short-term. Instead of looking at this scenario with the concession that this means that we as humans will have to suffer a certain amount of poverty to avoid natural and economic ruin, similar to the argument that some unemployment is “good” because it holds down inflation, I took a different perspective. I asked of myself several questions. I asked if there were ways to incent reduced global consumption per individual in such a way that would allow the broadest amount of people to reach material prosperity without compromising individual utility? In modern terminology, it could be paralleled to the argument for lower tax rates that are spread more broadly across a population of people such that the burden of the tax is not borne by only a few individuals. Underlining my question was whether people on the planet could each consume only what they need, and certainly a few wants, in such a way that would not reduce their individual utility (or standard of living and quality of life) such that we would not be depleting those natural resources at any increased pace? The second component, or perhaps fallback of the first question, was – assuming that the consumerism as economic driver genie was already out of the bottle – that instead of solely trying to drive down per individual consumption, society could do a better job of creating products that themselves took less natural and environmental resources to produce or perhaps focus on fully recyclable and waste free goods? Present day theories around such a process can be found prominently in writings of individuals such as University of

Virginia Professor and Architect William McDonough¹ in what is referred to as “cradle to cradle” design², first coined in the 1970s by Walter R. Stahel, focused on how to create industrial, social and economic systems based on regenerative models that are waste free. In this sense, what is discarded as waste from one process would automatically be captured as raw materials for another process (i.e. no waste). In the latter scenario, more people would be able to consume, even if they have high utility rates, and we would still not destroy the planet or our collective economic future. In summary, I had made the decision that it was imperative that the “environment” also be added to my first two E’s of equity and economics – and on equal footing. I still looked squarely through the lens of equity, but realized that without economics there was no hope of equity; and without the environment, there was no hope of economics. Thus, through the simple algebraic deduction that Mr. Royal taught me in eighth grade math class at Stedman Jr. High School, I determined that without the environment there was no hope of equity. I knew that if I wanted to figure out how to save people then I would have to figure out how to simultaneously save the planet. So long before I had ever heard the term “Triple Bottom Line,” “People, Planet, and Profits,” or “Sustainability,” I had bought into the importance of the concept.

In the subsequent years since that undergraduate revelation, I realized that my belief in this theoretical concept has not waxed or waned, but has only gotten stronger over time as I have gained new appreciation. Though the United Nations predicts that the world’s population will grow from 7 billion currently to 10.1 billion by century’s end, there are also other estimates that say those figures could rise as high as 10.6 billion by 2050 and 15.8 billion by 2100³. Of those billions added to the planet throughout this century, regardless of the final count, many if not

¹ McDonough is the author of “Cradle to Cradle: Remaking the Way We Make Things” (2002)

most will struggle for survival. According to U.N.'s Director of Population Hania Zlotnick, the population increase is expected "to come from the high-fertility countries, which comprise 39 countries in Africa, nine in Asia, six in Oceania and four in Latin America" which would have "serious implications for the ability to provide food, water, energy, education and employment for millions of people in the world's poorest nations⁴." In light of such daunting statistics and intimidating challenges, I more greatly appreciate the difficulty and complexity of attempting to identify the proper public or private sector tool(s) to achieve the goal of "sustainability," but I also have gained a stronger appreciation for the need to do so.

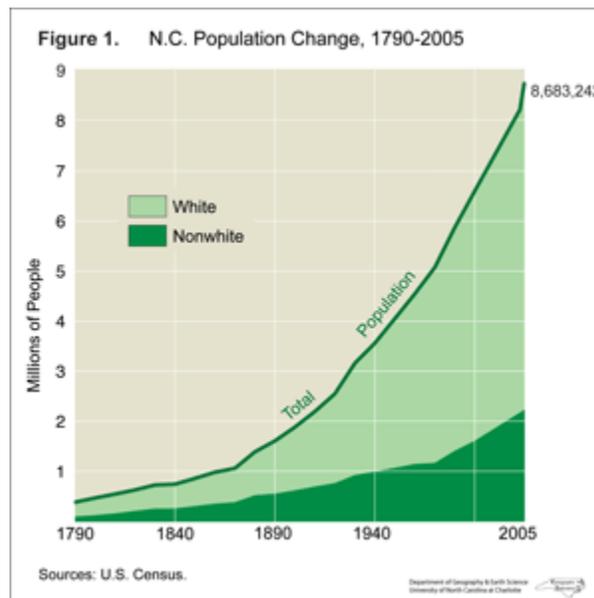
Like many others of my generation, when I left my rural hometown to be educated, I did not return. I met the woman of my dreams in college – herself a rural transplant; convinced her to marry me; and we planted our roots in a more urbanized environment – namely the Research Triangle Region of North Carolina, buying a home and raising two beautiful children. When I return to my hometown I realize two things. The first thing I realize is that I may have always been an environmentalist but did not know it. I grew up in and around nature – on dirt roads that passed fields of corn, tobacco, peanuts, potatoes, cucumbers or whatever the agriculture of the season was. Towering pines and sturdy oak surrounded my modest childhood home. I loved it all. Even if we were limited in economic capital, we were wealthy in those resources connected to the natural and environmental world. In looking back, I realize that one cannot put a value on such natural wealth. Or can you? That question leads me to my second observation, which is how relatively little has changed in the community where I was raised. Even as I have watched the Research Triangle in North Carolina transform in the twenty years since I first arrived here as an 18-year-old freshman, little has been altered back home. Yes, some growth has occurred but so too has some loss. Through dot com bubbles, housing bubbles, financial bubbles and the

greatest economic expansion in the history of the world – little by way of economic advancement happened in the outskirts of my rural hometown. This leads me to wonder if the community stayed still during the prior growth, then what will become of it during the second greatest economic crisis in global history. I suppose only time will tell.

But I am no longer a child growing up in the community, nor am I a citizen. I do, however, own land there. Thus my question becomes – “is that land worth more developed or unmolested?” Not just for me, but also for the community. This is the question at the center of environmental economics and consequently the dilemma at the heart of Sustainability and what is known as the field of Sustainable Community Development.

My private sector career has always bled into my public sector passions. After my decade in banking, and six years growing my energy and environmental investment advisory firm, I entered into the realm of government. I did this initially as an advisor to several local governments on strategies for sustainable economic development. Later, I was appointed to the State of North Carolina’s Economic Development Board and then subsequently to the state’s Energy Policy Council by North Carolina’s first female Governor, Beverly Perdue. Both boards were, and are, charged with crafting strategy, as well as policy ideas and imperatives for consideration by both the Governor and the General Assembly. My tenure on those boards served me well as I got to see firsthand how government policy is conceived and crafted and play a role in the process along with other committed individuals representing various sectors. This time of commitment was cut short only by my August 2010 appointment by the Governor to serve as the Assistant Secretary of Commerce for the State of North Carolina. In this role I oversee Community Development for the state that crosses the spectrum of Appalachian Development, Urban Development, Rural Development, Community Investment and Assistance,

Disaster Assistance, and Community Planning. This oversight includes hundreds of millions of dollars from both federal (Housing and Urban Development; Appalachian Regional Commission) and state sources that must be invested in Community and Economic Development and covers hundreds of projects in infrastructure, housing, and job creation, specifically for communities in North Carolina with populations under 50,000 – which happens to be roughly 533 of North Carolina’s 550 municipalities. However, my Division has activity in all 100 counties of our state. This is all within the context of a state that is one of the fastest growing states in the country. North Carolina has seen significant population growth over the last two centuries and dramatic growth in modern times. In 1940 the population was roughly 3.5 million. In 2005 that figure had grown to 8.7 million. It’s 9.7 million in 2010.⁵



We are expected to see additional growth of 3 million people by 2030. Four questions come to my mind when I hear those projections: 1) where will all those people live – our growing urban cores or our declining rural communities; 2) will we have enough water to support that growth; 3) how will we pay for such community development if communities are to prepare for that

influx of new citizens, whether they are retirees or new students or career changers; and 4) finally, will community and economic development patterns needed to keep up with that growth follow historic models of sprawl or will it be of the more sustainable kind in its design? Even with over a billion dollars invested in active projects over the last decade, there is no way that my Community Development agency can support all of the needs of our state's aging infrastructure and housing stock. This is particularly true in an environment of growing public deficits, shrinking public investment dollars and shrinking appetite for such collective investment. Additionally, North Carolina suffers from chronic unemployment with a rate of 10.1 percent at the end of July 2011 – a full percent point above the national average⁶. These uncertainties are all couched in this competing notion of the Triple Bottom Line and the previous four questions. How do we balance economic development with equity and the environment – especially when the need is so great for the economic side?

Consequently, all of those factors, intertwined with both my personal and professional background, have laid the foundation for this Master's Project (henceforth referred to as "MP"). To a carpenter, everything looks like a nail. To me, everything looks like an opportunity to connect equity, environment and economics.

1.2 If I Had A Hammer

Like most other endeavors, this MP did not start in a vacuum but had a broader context to it. North Carolina has been one of the hardest hit states economically. With a projected budget deficit that is 12.4 percent of the total state budget for the 2012 fiscal year,⁷ North Carolina has the 18th largest deficit as a percentage of total budget in the United States.⁸ North Carolina has maintained one of the highest unemployment rates in the United States peaking in January 2010

at 11.4% before dropping to 11.1% in April 2010 and further dropping to 9.7% in April 2011.⁹ However, in recent months that figure has climbed back towards its previous high. In my professional role, I wake up daily asking the question of “how can our agency drive community and economic development across the state” – particularly in our most challenged municipalities? However, that is only the partial question, as that “community and economic development” that I reference must be expanded to actually mean “sustainable” development. Sustainable in this context means exactly what I categorized it as earlier – the combination of enhancing the lives of real people through economic prosperity without depleting all of the natural and environmental resources that provide the basis for that economic prosperity in both the short- and long-term. Another way of looking at it is through the United Nations definition of sustainability as “providing for today’s generation without compromising the ability to provide for future generations”¹⁰. Yet, an even more basic concept and definition that inherently encompasses the two prior explanations is simply identifying sustainability as “survival” – or in laymen’s terms – “living to see another day.”

In the business and investment worlds, there are often believed to be three pillars of success. Those three pillars are sometimes referred to as “The 3 M’s.” The three M’s stand for: Money; Market; and Management. It is thought that if those three components are satisfied, then a business has a great chance for success. Entrepreneurs generally arrive at an investor’s door preaching that they have the last two M’s – Market and Management, and pleading for the other M – Money. In this context, “Market” is defined as the potential market for the entrepreneur’s goods or services, whereas “Management” is defined as those who will lead the organization into those markets. “Money” is defined as the capital available to the management to pursue and capture the identified market. Thus, the theory is that if the investor (or bank) will provide the

business with capital that it can both strengthen its ability to reach markets as well as to attract management talent. This entrepreneur's version of the triple bottom line will therefore lead to a return on investment for the capital provider either in terms of equity enhancement or return of debt plus interest. Consequently, any competitive business plan for a company must provide some treatment of those three M's. In a globalized economy, where one's competitor is no longer local, but planet-wide, the three M's have a lot more options than they did in the past.

Let's assume that a community is a business. For all practical purposes, it is. Therefore, any community that wants to be successful must be able to answer the question of its existence via the three M's. Who is the "market" for this community? In other words, who will want to live in this community, and why, when they could live anywhere else in the world? Who is the "management" of this community? In other words, who will lead these communities and will the community be able to attract the best and the brightest for such a task? Finally, where will the ongoing "money" to support the growth or success of this community come from? A community, as a government entity, only has one means of revenue. That singular means of revenue and revenue growth is through taxes – or more precisely, through tax collection from individual and commercial citizens in that community. If that community can intake more tax revenue from its citizens than it has to spend, while supporting and growing a community that can continue to be attractive to current and future citizens, then it will have a surplus that can be held in reserve or reinvested in further growth. If that community spends more revenue than it brings in, that is a deficit. However, it is often the case that the community – just like a cash strapped entrepreneur – may need access to capital to enhance their chances of making themselves an attractive market by which people would want to live or visit. They may also need cash to attract visionary leadership to the community to enhance its ability to pursue the

types of strategy that will grow its market. Additionally, the community often needs money to invest in new projects or initiatives that will produce longer term and sustainable revenues by increasing the pool of taxes collected.

North Carolina is a telling example of the challenges many small towns are facing with their sources of revenue for not only growth, but general obligations. Home and property values continue to decline, a source of property tax revenue that many municipalities rely on. Since 2006, home prices have declined more than they did during the Great Depression and after adjusting for inflation the home-price index has dropped to 1999 levels.¹¹ Consequently, in 2010, 50 of the 100 North Carolina counties were forced to spend from their reserves to balance the budget, ranging from 1% to 34% of the balance.¹² 2011 is expected to be markedly worse following state budget cuts.

While the younger populations are concentrated in the urban areas and military centers, the older citizens are in the rural communities.¹³ In North Carolina, the median age has risen by two years to 37.4 years of age since the 2000 census.¹⁴ This rise in average age and population distribution will pose challenges for not only sustainable community development in rural areas, but any development at all.

In North Carolina the surge in senior citizens is expected to reduce the tax revenue of local governments as many baby boomers will qualify for property tax exemptions over the next two decades. Karl Knapp, Director of Research for the North Carolina League of Municipalities, says that rural areas of the state will be the hardest hit because they have the oldest populations and “don’t have many businesses to help offset residential property taxes.”¹⁵ In 2011, around 84,000 North Carolina citizens are expected to turn 65, at which time they can apply for property

tax relief through the county revenue department via what is known as the “North Carolina Homestead Exemptions” for citizens with incomes of \$27,100 or below.¹⁶ Some legislators are also pushing to raise that qualifying income to \$35,000, leading some to question whether that would make it a program not just for the originally intended audience of low-income citizens but middle and higher income citizens,¹⁷ as individuals retire and qualify based on social security wages not on net assets. In North Carolina, baby boomers will make up twenty percent of the state’s population by 2030, with 71 of the state’s 100 counties having more people 60 and over than those 17-and-under.¹⁸ Such a move as the increase in those qualifying for the Homestead Exemption might devastate local revenue streams for those 71 counties plus others. However, regardless of whether the change takes place or not, there is going to be enormous stresses on local revenue in the rural communities and will challenge their ability to update their infrastructure, including for the green and clean economy. This inability to update infrastructure and housing would have a further negative impact on reducing the chances that young people would move to, return to, or remain in those communities. If communities cannot build green infrastructure, then it reduces the opportunity to expand the green marketplace and resulting green jobs.

Though the Homestead Exemption may be unique to North Carolina, certainly the broader trend of an aging population is not. Baby boomers are the largest generation of U.S. citizens and approximately 10,000 boomers in America will turn 65 years of age every day for the next 19 years.¹⁹ This will reduce the taxable income that any local, state, or federal government can draw on for growth.

This projected revenue challenge is in addition to the current financial challenges. Because of revenue declines, state and local governments across the United States cut 30,000 jobs in May

2011.²⁰ Projected budget deficits for fiscal year 2012, like those for North Carolina are startling and widespread, from a low 1.7% for Iowa to high of 33.7% for Alabama.²¹ The market for municipal bonds – the way public entities generally finance growth – cratered in early January 2011, dropping to its lowest level since the recession began and has left many cities, hospitals, schools and other public borrowers challenged with finding affordable capital for investments, as even rates on 30-year Triple-A rated general obligation bonds rose above 5% for the first time since January 2009.²² Demand has been low for municipal bonds as the interest rates have risen for the instruments. This means that the number of buyers for those bonds have been low and those willing to buy them want higher interest payments, making it a less desirable avenue for public borrowers. A New Jersey agency was forced to cut the size of its bond issue by about 40% because of those factors.²³ Governments are having a hard time just refinancing their current debt as bank guarantees on their debt, through letters of credit, are expiring each year. Municipalities borrowed almost \$125 billion in debt in 2008, a nearly 100% increase from the prior year, at variable rates.²⁴ The concern is that when it is time to rollover that debt that the market for them will not exist. This makes it more unlikely that borrowers such as states and local governments can adequately borrow for general obligation let alone for more forward-thinking clean-energy infrastructure.

Those three M's are just as relevant for a major *Fortune 500* or *Fortune 50* company as they are for a sole proprietor. However, the struggle of the sole proprietor is likely to be much greater than for the multinational firm, simply because of access to resources – both human and financial. Frankly, the major corporation would have a lot more options than the lone entrepreneur to achieve its outcomes. Likewise, the large urbanized city has many more options to achieve its outcomes than the small rural town.

Therefore, to further narrow this MP, I moved from the broad view of the Three M's of Community Need, to focus on only one M – Money. In essence, how does one fill the financial hole of a community, especially as they look for options to grow, to attract markets and acquire management? My interested landscape is then further narrowed to that community, as classified as “non-entitlement” by the federal government, meaning that it has a population of below 50,000 for a municipality and 200,000 for a county, versus an “entitlement” community, which is simply identified as a municipality with over 50,000 or county with over 200,000 in population respectively. These smaller communities are also known as “rural,” whereas an entitlement community is generally classified as “urban.” Thus, I set out to explore the need for money for non-entitlement communities – the type of communities I work with at the Department of Commerce and that as mentioned earlier, compose the largest segment of North Carolina.

As I mentioned before, urban communities tend to have many more tools at their disposal than rural communities for investment capital. They have historic instruments such as bond financing and more complex tools such as Business Improvement Districts (BIDs), where companies within a certain geographic territory imposes a “self-tax” to support that territory; Tax Increment Financing (TIFs and synthetic TIFs), where a community can borrow against the new revenue expected to be produced by the project; the ability to add taxes to other services such as a nickel to rental car rates under the assumption that it would create a net gain for local citizenry since they would receive the benefit of the project, whereas the majority of the burden would be taken on by visitors to the community who are more likely to rent cars; and access to market capital. These are all tools that most small communities do not readily have at their disposal.

In addition to the traditional development that these tools have allowed urban communities to undertake, it has also allowed them to engage in “sustainable” development such as LEEDⁱⁱ certified development of public buildings and solar projects. That type of sustainable development often attracts what is known as the creative class (market) and talented public servants (management). This only further expands the “money” gap, which subsequently leads to the vicious cycle known as “the rich getting richer and the poor getting poorer.” For example, a number of the urban centers in North Carolina, including my current hometown of Durham, have been systematically installing public charging stations in their cities for electric vehicles. Durham is considering installing 10 stations for the expected growth of residents that own electric cars.²⁵ However, most rural communities have no such plans. Consequently, would a young creative class individual choose to live in a community in the twenty-first century where they would not have access to public infrastructure to charge their automobiles?

The types of funds that the Community Development Division of the North Carolina Department of Commerce, which I oversee, manages are supposed to help close those gaps. However, they only do so from a standpoint of slowing the widening of the gap. HUD’s Small Cities Community Development Block (henceforth known as CDBG) is invested in non-entitlement communities with the goal of spurring economic activity from the private sector. However, this is often challenging and CDBG sometimes becomes the primary, if not the sole source of funds in a project. That was not the intention of the program nor is it the aim. What makes this situation even more perilous is that, as a federally funded program, the CDBG Program has not been immune to the more recent domestic spending cuts. North Carolina over the years has averaged around \$45 million a year in CDBG funds, though any given year’s formulaic

ⁱⁱ Leadership in Energy and Environmental Design

appropriation could be above or below that figure. For example, during the 2010 fiscal year as a part of the American Recovery and Reinvestment Act (“ARRA” aka Stimulus), North Carolina received roughly \$48 million to invest in Community Development projects. As a function of the government impasse regarding the 2011 federal fiscal budget, the state, like our counterparts, saw a 16% reduction from 2010 totals. Therefore, North Carolina for 2011 received approximately \$41 million. Fiscal year 2012 is expected to be even worse, with some predicting an additional 20% reduction from 2011 totals. However, the community need, if anything has grown – not diminished – in size.

Thus, my MP was further narrowed around the idea of seeking out creative policy sources that could attract private capital to rural, non-entitlement communities to be invested alongside scarce public dollars with community development and job creation as the focused outcomes. Yet, as mentioned earlier, any “ole” development would not do if the North Carolina small town communities wanted to be truly competitive in the 21st century. For a number of reasons, the notion of *sustainable* community development once again seemed to be the most appropriate route.

On one hand, North Carolina Commerce’s primary community and economic development funder, U.S. HUD had entered into a multiagency partnership with U.S. Department of Transportation and U.S. Environmental Protection Agency to launch something called the “Sustainable Communities Partnership,” in June 2009, built on six pillars of livabilityⁱⁱⁱ including enhancing economic competitiveness and supporting existing communities and hypothesizing

ⁱⁱⁱ Federal Sustainable Partners six (6) guiding Livability Principles: 1) *providing more transportation choices*, 2) *promoting equitable, affordable housing*, 3) *enhancing economic competitiveness*, 4) *supporting existing communities*, 5) *coordinating and leveraging federal policies and investment*, and 6) *valuing communities and neighborhoods*

that more sustainable communities would equal more efficient usage of declining federal dollars. Since our primary funder, the federal government (via HUD), was going that route, it made sense for North Carolina to do the same, especially if it could make for more efficient monetary investments. It would stand that the more prepared the state was, the more likely it would be to attract future federal and private dollars around sustainable community development. Secondly, the preferred development style of the 21st century appeared to be moving towards that which was more “sustainably-minded” than in the past. For example, most communities are built with traditional petroleum filling stations. However, new automobiles are arriving in the marketplace propelled by electricity, hybrid gas and electricity, biofuels, and even natural gas. Whereas a number of urbanized communities have begun to build electric plug-in stations and other components of a modern infrastructure, rural communities have not principally done so. As mentioned earlier, if we were just going to theorize that the average college graduate going into the second decade of this century will favor some type of alternative fuel vehicle, does that mean that they will also favor communities that can support such transportation? Does that mean that rural communities are then, by default, less likely to attract college-educated citizens; or less likely to be able to compete for the relocation or headquarters of a major corporation because that organization’s educated workforce wants such amenities; or that the rural community will be permanently less competitive in a world that is now globalized? Finally, sustainability makes sense for any community anticipating growth who must also anticipate where it will garner the water to support that growth. If a community is not applying the best practices of sustainable community development, how can it ensure that it can provide for all of its citizens – current and future? In that sense, any community with a dated infrastructure would lose by default. All of those reasons made it logical to focus on not just traditional economic and community

development, but on sustainable development for non-entitlement communities. Since energy and the environment are key components of sustainability, my MP redux centered on the general question of “how to craft tax policy that could find multi-partisan support related to renewable energy and energy-efficiency investment in low-wealth, rural non-entitlement communities?” More specifically, this project has focused on crafting a proposal for utilizing U.S. domestic tax policy aimed at the use of “repatriated funds” for such an investment purpose. For those who do not know, “repatriated funds” is the shorthand terminology referring to the profits of American-based corporations earned abroad that subsequently are returned, or repatriated, to the parent company in the United States.

In my analogy, with the nail being the idea of sustainable community development that takes into account equity, environment and economics, I saw the hammer – or the use of repatriated funds – as the tool. If that tool was shaped right, through proper tax policy and incentives, I believed that it could be quite effective.

1.3 The Great Debaters

Few topics in current economic and political discourse are as hotly debated, contested or controversial as the repatriation of foreign profits. More accurately, the debate and controversy is specifically focused on the question of what U.S. government tax rate should be associated with those returning funds.

The argument is exacerbated in modern times by the sheer enormity of the fund amount held in offshore corporate accounts. According to recent accounts, U.S. corporations collectively hold over \$2 trillion in cash on their balance sheet.²⁶ It is estimated that \$1.2 trillion of that capital (i.e. Cash and short-term equivalents) is overseas – and that number is steadily growing.

Technology companies have the largest pool of capital at nearly \$390 billion, followed by healthcare providers and industrial businesses.²⁷ Some estimates calculate that the companies in the S&P 500 have enough cash to operate at their current levels for 6 years without bringing in another bit of revenue.²⁸ This is as a result of record corporate earnings that have seen corporate cash alternate from \$1.53 trillion in 2007, followed by a drop to \$1.39 trillion in 2008 as a result of the recession, to the \$2.05 trillion reported at the end of June 2011 by the Federal Reserve Bank.²⁹ This is the most cash and liquid assets since 1963.³⁰ If one adds in the present American jobless rate at over 9%, a lagging stock market, divisiveness around debt ceilings and entitlement cuts, it is not hard to understand the tension at hand. In this paradoxical situation, American corporations are doing great, while American citizens are not.

	<i>Offshore Cash (in billions)</i>	<i>Domestic Cash (in billions)</i>	<i>Total Cash (in billions)</i>
Apple	\$ 47.6	\$ 28.6	\$ 76.2
Microsoft	\$ 45.0	\$ 7.8	\$ 52.8
Cisco	\$ 38.8	\$ 4.6	\$ 43.4
Oracle	\$ 20.4	\$ 8.4	\$ 28.8
Google	\$ 18.8	\$ 20.3	\$ 39.1
Qualcomm	\$ 14.6	\$ 5.6	\$ 20.2
Amgen	\$ 13.6	\$ 1.8	\$ 15.4
Dell	\$ 12.9	\$ 2.3	\$ 15.2
EMC	\$ 3.1	\$ 6.4	\$ 9.5
Bristol-Myers Squibb	\$ 2.7	\$ 7.7	\$ 10.4
Total	\$ 217.5	\$ 93.5	\$ 311.0

Data: JPMorgan Chase, August 2011

Though this debate is one that truly does have ramifications for every American, and is certainly relevant to anyone who utilizes public and/or private resources (all of us), it has been a fight held largely out of the purview of the average citizen. The short version of the argument is that the federal government is telling the corporations to bring their foreign profits back to America, pay the required taxes on it, and in the meantime hire some of these millions of folks who are out of work. On the other side, the corporations are telling the U.S. government to reduce the tax associated with them returning the money to the United States and by the way, do not put any restrictions on that money for how it can be used when it is returned.

At a 35% tax rate for repatriated funds, global corporations and their supporters argue that the opportunity cost of bringing those funds “home” versus leaving them overseas or investing them in other countries is too great, indicating that a tax rate of closer to 5% would be more fair and ideal – but still without any stipulations on what the returned money has to be spent on. The opposing viewpoint, held largely by the federal government, is that the opportunity cost of the American government, and therefore the American people, of foregoing revenue equal to 30% of revenue it could earn (35% current rate minus 5% proposed rate equals loss revenue amount), is too great.

1.3.1 Homeland Investment Act of 2004 (HIA-1)

This is not necessarily a new fight, but the rehashing of an old one. In the early 2000s, American corporations held billions of dollars in foreign capital on their offshore balance sheets.

Companies in their ongoing lobbying for a “repatriation holiday” bill had stated that they were incredibly interested in creating American jobs; however they insisted they were unable to do so as long as their money was trapped abroad. On February 13, 2003 congressional members

English, Dreier, Brady and Dunn, introduced a bill under the short title of “Homeland Investment Act of 2003” that led the 108th Congress to amend the 1986 Internal Revenue Code to “encourage foreign earnings within the United States for productive business purposes.”³¹

The bill reduced the effective tax rate of American corporations with “excess qualified foreign distribution amounts” (i.e. profits) from 35% to 5.25% for a one year period. The bill was relatively succinct but stated that a corporation over a five year period prior to December 31, 2002 could repatriate their profits at the reduced rate. However, within the five year period the taxable year with the highest profits and the taxable year with the lowest profits would be disqualified from the benefit meaning that three of the previous five years could use the tax reduction. Under the proposed bill, if a corporation had been in existence for less than five years then all the years were eligible. Furthermore, of the “qualifying cash,” 85% could be repatriated at the 5.25% rate.³²

Connected to a broader bill that dealt with a dispute between the United States and the European Union over export taxes (i.e. U.S. extraterritorial income tax – ETI), the repatriation bill went through several versions before it was finalized. According to an April 2006 *Congressional Research Service (CSR) Report for Congress* written by David Brumbaugh titled “Tax Exemption for Repatriated Foreign Earnings: Proposals and Analysis” this legislation went through different versions which were included in: “H.R. 2896 (Thomas; the provision was not included in a later version of H.R. 2896), S. 1475 (Hatch); S. 1637 (Grassley; approved by the full Senate in May 2004), and H.R. 4520, a revised version of H.R. 2896 that was approved by the full House in June. Earlier versions of the plan were contained in the Senate-passed version of the May 2003 tax cut bill (P.L. 108-27; the Jobs and Growth Tax Relief and Reconciliation Act, or JGTRRA) and in H.R. (English), H.R. 1162 (Smith), and S. 596 (Ensign).”³³

The Homeland Investment Act (henceforth “HIA-1”) was enacted on October 22, 2004 as part of the broader American Jobs Creation Act (H.R. 4520; P.L. 108-357). In order to qualify for the HIA-1 special provision, the dividends (i.e. overseas corporate profits) were to be reinvested in the United States based on a properly approved domestic reinvestment plan. The U.S. Treasury Department offered guidance on permitted investments such as certain business acquisitions, debt reduction, capital investment, and certain advertising or marketing. In Notice 2005-10 the U.S. Treasury department provided technical guidance on the reinvestment plans which had to be approved by the company’s top officer and later approved by the board of directors before repatriation could occur. The Treasury identified eligible investments “including worker hiring and training, infrastructure, research and development, capital investments, and the financial stabilization of the corporation, including debt repayment and acquisitions of U.S. companies, but not stock redemptions, executive compensation, or dividends.”³⁴

Though nearly \$315 billion was repatriated as a response to HIA-1, most critics have decried it as a failure. Many scholars who have studied HIA-1 since its enactment have stated that it was a failure not only because the money repatriated failed to create jobs, but that some of the companies that returned funds actually fired employees, among a range of other documented criticisms. It was reported that even the Bush Administration, a long-time proponent of corporate tax cuts, was not in favor initially of the repatriation bill and argued it was “weak stimulus” and “bad tax policy.”³⁵ John Snow, Secretary of Treasury at the time, reported that an analysis by the President’s Council of Economic Advisors found the provision unsound and concerning and “would not produce any substantial economic benefits.”³⁶

In 2003, a group of companies and trade associations formed an organization to lobby for the passage of HIA-1. The organization was called “the Homeland Investment Coalition” and

predicted “that passage would help the American economy by increasing domestic investment in plant, equipment, R&D, and job creation.”³⁷ Incidentally, a large number of those representing the Homeland Investment Coalition were recorded in a U.S. Conference Committee report that stated the “conferees emphasize that this is a temporary economic stimulus measure, and that there is no intent to make this measure permanent, or to ‘extend’ or enact it again in the future.”³⁸ However, just as in 2003, a group of prominent corporations have launched an organization and campaign known as “Win America” with the goal of convincing Congress to again implement a corporate repatriation tax holiday in 2011.

1.3.2 Pushing for Homeland Investment Act 2

The “Win America Coalition” has a number of prominent companies attached to it including Google, Cisco, Microsoft, Apple, Pfizer and Duke Energy among others.³⁹ The Win America Coalition collectively says that repatriation at a lower tax rate will do the trick of jumpstarting a down economy. Though, Treasury Secretary Timothy Geithner began in early 2011 talking with corporate executives from more than a dozen major U.S. companies, large and small, about ways “to create stronger incentives for investment in the United States, both by American and foreign companies,”⁴⁰ similar to the second Bush Administration when first introduced to the repatriation holiday concept, the Obama Administration has expressed little interest in supporting it. As the capital overseas grows, so does the debate.

John Chambers, Chief Executive Officer of computer network equipment maker Cisco, has been one of the most outspoken critics of the current tax policy on foreign profits and has long advocated for repatriation of funds to the United States at a reduced rate. In an October 10, 2010 article in the *Wall Street Journal* titled “The Overseas Profits Elephant in the Room,” Chambers

and Safra Catz wrote that the “roughly” one trillion dollars of earnings overseas [at that time] could be repatriated and “could be invested in U.S. jobs, capital assets, research and development, and more.”⁴¹ Chambers compared the U.S. tax policy to those of other major developed economies naming “Germany, Japan, the United Kingdom, France, Spain, Italy, Russia, Australia and Canada” in his article and stating that “companies headquartered in any of these countries can repatriate foreign earnings to their home countries at a tax rate of zero to 2 percent.”⁴²

There has been agreement on both sides of the political aisles that there is a need for serious tax code modification and simplicity. The Senate Finance Committee began holding hearings on tax reform in 2010 and continues in 2011.⁴³ However, the President has publicly stated that he is only interested in comprehensive tax overhaul.

The President has been often quoted as indicating that he believes the current corporate tax code actually encourages U.S. companies to create jobs overseas. A May 2009 *New York Times* article quoted the President saying [that] “our tax code actually provides a competitive advantage to companies that invest and create jobs overseas compared to those that invest and create those same jobs in the U.S.”⁴⁴ In a 2010 article, President Obama is quoted as saying that current tax provisions provide loopholes that have “actually given billions of dollars in tax breaks that encourage companies to create jobs and profits in other countries.”⁴⁵

Though the White House had contemplated a major U.S. tax overhaul discussion with the new Congress, those have not progressed, as some believe targeted tax rules, such as repatriation of overseas profits tax-free, could help some and hurt others. For example, business leaders convened as part of the President’s Expert Council endorsed the idea of sharply reducing tax-

rates on income generated from patents and other intellectual property, similar to rules enacted in Europe.⁴⁶ In addition to desiring comprehensive tax reform, the President has insisted that any new tax breaks must meet the administration's "tough budgetary standards" which requires the budgetary cost of new tax benefits, including lower rates, be offset by elimination of other popular business tax breaks.⁴⁷

In an article written by Frank Aquila of Bloomberg News a few days after Chambers' article, Aquila reported that in September [2010] "Microsoft said it would sell as much as \$6 billion in debt to fund dividend payments even though it has about \$37 billion in cash and short-term investments on its books."⁴⁸ The article goes on to make the point that many other firms are currently making, that "the cost of borrowing is far lower than the repatriation tax."⁴⁹ These sentiments paralleled the main argument of Chambers' article which was that with corporate bond rates below 4%, bringing back foreign profits at federal and state combined rates of 40%, in his opinion, is corporately irresponsible and the U.S. government should instead allow for the repatriation of funds at 5% which would lead to a private sector stimulus of \$1 trillion and raise \$50 billion in federal taxes that the government does not currently have or will not get.⁵⁰

Corporations point to examples like the one *Bloomberg Businessweek* reported on March 3, 2011 where the Novell Corporation posted a first quarter loss related to cash repatriation it incurred as it brought home earnings from abroad to ready for acquisition by business software provider Attachmate Corporation. Novell reported a loss of \$17.9 million for its fiscal first quarter ending January 31, or 5 cents a share, which included a tax charge of \$31 million for repatriation.⁵¹

Some analysis have indicated that repatriation decisions are currently more a matter of earnings decisions than any else. This school of thought believes that a corporate treasurer is more

concerned with what the market will say about its overall earnings versus tax implications.

Therefore, if the rewards of bringing cash back exceeds the costs (i.e. stock rise), then the tax rate is not as important.

Others point to the \$174 billion in foreign asset purchases by U.S. companies in 2011 as an argument that foreign profits will find places to invest overseas if they cannot return their money to American shores.⁵² This is more than double the 2010 rate. General Electric and Microsoft are among those who have used their overseas capital to do acquisitions of foreign companies. In March 2011 alone, GE spent \$4.6 billion of its \$18 billion of foreign cash on two foreign acquisitions.⁵³ This foreign activity is expected to continue to grow.

However, opinions vary about what corporations would do with the returning cash if they received a second repatriation holiday. A major component of the current debate is around jobs. For example, though Chambers is vigorously arguing for a repatriation holiday, Cisco recently announced plans for the technology giant to cut 8,000 employees, yet has made no reference to a repatriation holiday having the potential to save any of those 8,000 jobs. German conglomerate Siemens Inc, though not American, has grown their cash holding from \$9.4 billion at the end of 2008 to \$16.4 billion currently.⁵⁴ Yet, it has also laid off 12,000 workers during that same time period.⁵⁵

In recent months, the repatriation argument has only intensified with Presidential hopefuls Rick Perry, Mitt Romney, Michelle Bauchman, and Herman Cain chiming in, as well as a number of current legislators. Most recently, a bipartisan bill called the Foreign Earnings Reinvestment Act presented by Senators Kay Hagan (D-NC) and John McCain (R-AZ) suggested that U.S. corporate profits be allowed to be repatriated at a reduced rate.⁵⁶ The bill staggers the tax rate

from 8.75% to 5.25% with the lower rate being an incentive for companies who add jobs. In addition, the Hagan-McCain bill would penalize companies who repatriated funds at these lower rates, only to later lay off workers. Each worker laid off after repatriation would cost the corporation \$75,000 (three times the \$25,000 amount included in a similar House bill) ultimately increasing their tax liability. Thus far, President Obama has not given any indication that he is willing to bend on the repatriation idea.

1.3.3 The Impasse

Any fight that involves a Who's Who of the global corporate elite and the Executive Branch of the federal government is one inherent with great excitement and inherent drama. However, the topic at the center of this particular fight should entail a heightened interest from anyone with a stake in the American economy – present and future. Though that is quite a strong statement, I believe that it has some merit. Various studies put forth by the left and the right differ greatly in their anticipated impact of a second repatriation holiday. Forecasts have been as divergent as stating that repatriation of corporate profits could create as many as 3 million jobs⁵⁷ and deliver an immediate one-time payday of \$50 to \$80 billion to the U.S. Treasury Department; whereas others have said few jobs would be created by a second Act and would cost tax payers that same \$80 billion over 10 years⁵⁸. A tax debate that includes trillions of dollars, but also a huge gap in suggested repatriation rates, impacts the amount of funds that will return to the United States to create jobs, build schools and roads, and pay down the federal debt. Consequently that includes impacts on every man, woman and child in America who must rely on America to be stable and competitive well into the future for jobs, entitlements, defense and other needs. Therefore, this interest cannot be relegated to those within the American borders, but to foreign countries as well – those who hold our debt and those who are our trading partners – as well as their citizens, who

needs America to continue to be competitive and solvent to buy their goods. In a globalized world, we truly are all interconnected.

1.4 The Story Behind the Story

Thus far, the telling of the background of what led to this topic as a MP for me has been laced with a certain amount of complexity. However, the truth is much simpler. As an investor and financial professional, I am predisposed to always look for opportunities to connect capital to ideas. When a great idea can find good capital, that is an efficient market to me. A great idea for me is one that entails equity, environment and economic gains. As a Commerce Assistant Secretary I am always looking for jobs and investment capital for communities in need. After beginning this position, I decided to focus my attention on three things: 1) identifying innovative pools of capital for low-wealth and non-entitlement communities in North Carolina; 2) helping lead sustainable and energy-related community development in North Carolina communities from the bully pulpit I am privileged to hold; and 3) doing what I could to bring job creation to those unemployed and underemployed in North Carolina. Our mantra in the North Carolina Community Development Division is “Think Impact.” So I do. This personal mantra, I hope, can have some broader positive impact on our country and world – but definitely our state.

California:

On a cross country trip from North Carolina to California in October 2010, the topic of connecting the repatriation capital “market” to the sustainable community development idea was first born. As I do many times on long flights, I either catch up on my reading or my sleep – on a good flight I may do both. *Bloomberg Businessweek* was among the dozens of magazines that I needed to catch up on. Though it usually requires me to do some sort of speed reading in order

to make it through all of my periodicals, a tiny column with no by-line, in whatever issue of *Bloomberg Businessweek* that I was reading caught my attention. The article, which I did not keep because at the time it was only of slight significance to me, and am unable to properly cite through this reference, talked briefly about the dilemma being faced by many of Silicon Valley's leading technology companies. The small column discussed the hundreds of billions of dollars (at that time) of foreign profits that major technology companies desired to bring back to America at a reduced tax rate. I immediately wondered if there was a way to encourage, or more likely, incent those corporations to bring those funds back to the United States and invest them in small business or community development of some sort? That question on that afternoon plane ride was not an abstraction for me, as I would have the opportunity the next afternoon to meet with one of those major technology companies mentioned in the article on a trip to Silicon Valley.

The following day I met with the technology executive as scheduled. Midway through our conversation I decided to cast my repatriation net. I asked the official if his company had a repatriation policy. That singular question led to an extended answer that detailed the central debate between the corporations and the federal government. In summary, the executive's response was that yes they had a repatriation policy, and that at this point in time, it was not to bring the money back because of the high tax rate. He said his policy would continue to be to leave the funds offshore until the federal government lowered the current repatriation tax rate.

On the flight back to North Carolina that night I wondered where the opportunity might be to align the federal government's self-interests with the self-interests of the major technology companies, including the one I had just visited. The one connection that came to mind was energy and energy-efficiency. Many technology companies had a self-interest in investing in

energy-related industries because of their growing data center power needs – as well as its cache of being the corporately responsible thing to do. Likewise, the federal government under the Obama Administration had framed a large part of its economic policy around the energy and energy-efficiency sectors. The idea was planted.

New York:

Several months later, in January 2011, I was invited to be a part of a dialogue with government officials from 25 other states hosted by a major foundation in upstate New York. Though it was cold outside, a result of a major ice storm, the conversation inside was hot. Our states, with the participation of federal representatives, discussed the fading hope of comprehensive energy legislation at the federal level, and dialogued on ways that we might individually or collectively pilot initiatives that achieved the same outcomes, even without the legislation.

While watching a presentation on electric vehicles and thinking about the communities that my agency serves, a light bulb went off over my head (a compact fluorescent light bulb if anyone is wondering). Many small rural communities, like the ones I served in North Carolina, and representative of those all across the United States, lacked even basic infrastructure to compete in an energy efficient economy. Though we as a state invested millions of dollars in infrastructure, we did not focus on anything as basic as energy efficient infrastructure as part of our regular portfolio. However, through the federal stimulus funds many small communities had been given money to pilot energy efficiency projects, but were now out of those funds just as they were getting their groove in the energy space. No major private capital was filling that space – so I again wondered, if that was a role, with the right policy, that the foreign profits could fill. Yet, I realized that however the capital got into the communities it would have to be

with less restriction than the ARRA funds had been to allow for adequate risk taking in some investments. The money would have to be like equity capital but with a restriction on where the money flowed and not leave the community worse off if a project failed.

While in the private sector energy investment space I had once modeled a fixed-income fund that would have some equity-like features. It was designed to be a relatively safe and low-risk investment, while being able to jumpstart certain energy and energy-efficiency markets. My Commerce appointment had prevented me from exploring that concept further, but I wondered if tenants of that concept could be intertwined in some vehicle that would connect repatriated funds with local communities in need of flexible but low-cost and low-risk capital.

On the flight that night from New York to North Carolina, the idea of a “Sustainable Community Energy Bond” entered my mind for the first time. I thought this instrument could perhaps be funded by repatriated dollars.

Washington, DC:

The month following the New York meeting, on a trip to the Washington, DC area, I arranged to meet up with a friend of mine at a coffee shop. He was a senior official within the Obama Administration. By early 2011, the public repatriation debate had grown exponentially from what I had first read about in the tiny article the previous fall, as had the foreign profits. I asked my friend what was the Administration’s repatriation policy?

With the words barely out of my mouth, he replied, “It doesn’t work! It didn’t work before! It doesn’t create jobs! It didn’t work before!”

That turned out to be his only sentiments regarding that policy subject. The “before” that he was referring to was the Repatriation Holiday given to corporations in 2004 as part of the Homeland Investment Act (HIA-1), under the American Jobs Bill, that I referenced earlier. As outlined earlier, the Holiday was meant to result in domestic investments to create jobs. Whereas, most agree that though a large amount of capital was repatriated, few jobs came as a result. In my friend’s mind, the “before” had failed; there seemed to be little debate to it from his perspective. However, as an entrepreneur, what I heard was “it didn’t work the *first time* we tried it.” That to me was like saying, “the light bulb or the television or the automobile or any number of innovative inventions didn’t work the first time we tried it – but it might work the *second time!*” To paraphrase Thomas Edison, the first repatriation holiday didn’t fail, the U.S. just succeeded in learning one way that it doesn’t work! Now let’s try another way.” In my mind, just because it didn’t succeed against its stated goals the first time, didn’t mean that it couldn’t work if we kept trying!

Though the original driver of this idea was connected to North Carolina investment and competitiveness, it became apparent that any model that included repatriated funds would have to be tied to federal policy since it was the federal tax rate that was at the center of the debate. In addition, it was apparent that the problems of my own state were no different than those of many other states. The view up close in North Carolina was of a state: 1) needing to constantly update its long-term competitiveness strategy almost at the speed of thought based on global forces beyond its control as old industries made way for the new; 2) needing to produce a lot of jobs very quickly; 3) needing a way to tap into the potential of the energy economy through investment, but doing so during a time of shrinking public dollars; and 4) struggling to advance

in an atmosphere of unusual divisiveness and multi-partisanship. However, as Bette Midler would remind us in song, “from a distance” it looked the same for all of America.

2 Theoretical Framework

2.1 Research Objective

This Master’s Project critically examined the Homeland Investment Act of 2004 with the goal of identifying the shortcomings that prevented the legislation from achieving the desired outcomes for which it was created – namely job creation. The objective of this MP is to produce an implementable U.S. economic policy related to tax rates and incentives on repatriation of foreign profits for U.S. multinational corporations with the goal of green job development.

For the sake of answering the question upfront, let’s go ahead and define a “green job.” A Google internet search returned the following four definitions for a “green job”⁵⁹:

Definition 1: A green job, also called a green-collar job is work in agricultural, manufacturing, research and development (R&D), administrative, and service activities that contribute(s) substantially to preserving or restoring environmental quality.

Definition 2: A job in any organization or sector that contributes to increased sustainability or better environmental outcomes. Also called clean energy jobs.

Definition 3: Jobs in the primary (or direct) industries of a green economy that promote environmental protection and/or energy security.

Definition 4: A green job, also called a green-collar job, is any job in an organization that provides a product or service that allows consumers to either consume less, either because of the lower price or greater efficiency, or produce more due to the utilization of

this product or service, both of which actions reduce total energy use and environmental impact on the planet.

This MP has an objective of identifying policy that can be incorporated into national economic policy planning and decision making of federal leaders in both the Congressional and Executive Branches of the government. It is intended to be an example of interdisciplinary research that crosses the environmental, social and economic divides. Therefore, the primary outcomes of this analysis should be tied to both economic (U.S. competitiveness; job creation) and environmental (preservation of natural resources; sustainability) strategy.

Additionally, it is the objective of this research to be policy-relevant; in other words, to have practical application.

2.2 Theory and Hypothesis

It is my theory that the gap between the “repatriation policy” sentiment of the multinational corporation executive I met with in Silicon Valley in Fall 2010 and the federal economic Administrative official I met with in Washington, DC in late Winter 2011 is wide, but not unbridgeable.

My hypothesis is that if policy can be designed that can overcome the shortcomings of the 2004 Homeland Investment Act (HIA-1), while also satisfying the broad needs inherent in what I call the *Big Four* (4) Criteria, then effective legislation can be crafted, passed and implemented. The *Big 4* are identified as elements that would be considered ideal characteristics of legislation to create optimal policy in the current social, economic and political environment. The *Big 4* are assumptions built into the policy model that will serve as a guide in crafting the best domestic policy for this MP. In short, addressing those assumptions through policy design ensures the

resulting legislation would be relevant and hopefully effective. The assumptions identified for this project were derived from the list of current state and U.S. challenges identified a few pages back.

Assumption 1: The United States is losing competitiveness

In President Barack Obama's January 2011 State of the Union address he made U.S. competitiveness one of his themes: "I'm focused on making sure the economy is working for everybody, for the entire American family. That's how we'll create jobs today. That's how we'll make America more competitive tomorrow. And that's how we'll win the future." He went on to say that the United States will return to its competitiveness by investing "in a more educated workforce, committing more to research and technology, and improving everything from highways and airports to high-speed internet," as well as "increasing U.S. exports and putting Americans to work."⁶⁰

There was a time when there was no question about what the most competitive global economy was. America has long been the envy of the world and every other economy fought for second place. It is not uncommon for scholars and business leaders alike to refer to the Twentieth Century as the American Century because of this undisputed leadership. It was similar to the years when professional basketball player Michael Jordan played in the NBA. There was little debate from inside or outside the league about who the best player was. But just as the day arrived when Michael Jordan's stellar career came to an end, so did America's undisputed ranking as the most competitive market in the world. Though it is easy to still identify America as the best place on earth to live because of its unique freedoms and continued exceptionalism, that is not the same as saying it is the most competitive.

Each year the Geneva-based World Economic Forum (WEF) releases a report on global competitiveness. Ranking 139 countries comprehensively, the WEF ranks them through its Global Competitive Index (GCI) in twelve areas that they call “pillars,” including: institutions; infrastructure; macroeconomic environment; labor market efficiency; financial market development; technological readiness; market size; business sophistication; and innovation.⁶¹

America last ranked number one on the WEF Global Competitive Index in 2008 where it was followed by Germany, Japan, Finland, the Netherlands, Denmark and Canada. In 2008 China was ranked 27th, best among major developing economies. In the 2009 ranking the United States had dropped to second.

The 2010 report ranked America at fourth behind Switzerland, Sweden and Singapore. In 2010, America was praised for its innovative companies, excellent universities and flexible labor market, but was criticized for large deficits, increasing government debt, declining faith in political leaders and corporate ethics. In a June 7, 2011 front page story, the *USA Today* estimated that the United States owes \$62 Trillion in unfunded obligations, amounting to over half-million dollars per household for systems such as Medicare (\$24.8T), Social Security (\$21.4T), Federal Debt (\$9.4T), Military Retirement benefits (\$3.6T), Employee Retirement benefits (\$2T), and Other (\$0.4T).⁶² “There has been a weakening of the United States’ public and private institutions, as well as lingering concerns about the state of its financial markets,” the 2010 WEF report said.

The most recent WEF CGI Report released for 2011-2012 has America once again falling. America now ranks fifth out of the 142 countries currently ranked. China is now 13th.

**2011-2012 World Economic Forum
Global Competitiveness Index**

Rank	Country
1	Switzerland
2	Singapore
3	Sweden
4	Finland
5	United States
6	Germany
7	Netherlands
8	Denmark
9	Japan
10	United Kingdom

www.weforum.org

Another measure of America's declining competitiveness might be found in immigration trends. For example, according to the 2010 census, North Carolina's Hispanic population more than doubled from 2000 to 2010.⁶³ Yet, in 2011, hundreds of Hispanics are leaving North Carolina each month at a rate of 10 to 20 daily.⁶⁴ This North Carolina trend is part of what Damien Cave of the *New York Times* calls the reversal of "the extraordinary Mexican migration" that brought millions of illegal immigrants to the United States over the past 30 years.⁶⁵ Younger generations are deciding to stay in Mexico where some are now betting they will have more successful lives than in America.

A second noticeable trend speaks to America's competitiveness in the global economy. After decades of international students migrating to America to attend college and establish a post-education life, many are now returning to their home nations following school. As middle class populations grow in places such as India and China, students are choosing to return to their home country following college. Almost 128,000 Chinese students were enrolled in American universities in 2010, including rising Chinese student populations at North Carolina universities

including the University of North Carolina at Chapel Hill (56%), Duke University (23%) and North Carolina State University (21%).⁶⁶ A 2009 study published by Vivek Wadhwa, of Duke University, identified that only 6 percent of Indian students and 10 percent of Chinese wanted to remain in America permanently.⁶⁷

Another sign of the declining competitiveness of America, in addition to where foreign workers or foreign students decide to locate permanently, is where foreign capital investment is deciding to locate. America has a long history of being an attractive place for foreign companies to invest. The U.S. economy was, for many years, the largest single attractor of foreign investment. A decade ago foreign investment in the United States totaled 40% of all capital invested around the world; today that figure is estimated to be just 17%.⁶⁸ Companies outside of the U.S. are finding much more attractive economies to invest in as they aim to spend their capital on growth and diversify their investments, with a particular focus on emerging markets.

The fast-growing nature of emerging economies is not the only reasons some believe that foreign investors are shying away from the U.S., which global investors believe hold smaller potential payoffs. These foreign investors also cite the same concerns as U.S. firms do regarding their lack of investment – a weak economy driven by weak demand and uncertainty in the regulatory environment. Furthermore, they express opinions that U.S. policies are “unfair” to foreign investors – “from antitrust rules [such as policies on mergers] to the federal government’s ‘Buy American’ programs [such as federal procurement which sometimes favor domestic firms].”⁶⁹ In contrast, “over the past decade, the United Kingdom has attracted four times more investment from emerging-market acquisitions than the U.S. has, in proportion to the size of its economy,” according to an October 2011 *Bloomberg Businessweek* article.⁷⁰ According to the article, this is

“because Britain’s policy and regulatory environment make foreign takeovers more straightforward.”

With direct investment into the U.S. economy during the first half of 2011 down by nearly 12% from the same period last year, the Obama Administration launched the *SelectUSA* campaign.⁷¹ *SelectUSA* is a campaign aimed at attracting foreign companies interested in investing in America. The program, housed in the U.S. Department of Commerce, seeks to attract at least \$1 trillion in new international investment into the U.S. and is one of the recommendations proposed by the President’s Council on Jobs and Competitiveness.⁷² The Administration hopes that this federal-level first-of-its-kind structured program for attracting foreign investment, that includes State Department economic staff in global embassies and cabinet level secretaries lobbying companies and foreign CEOs, helping them navigate federal regulations, and identifying current tax incentives that could assist them, will result in foreign inflows of capital and job creation in America. This kind of coordinated effort has usually focused on helping American companies to win export deals that would allow them to create jobs at home. Jeff Immelt, Chief Executive Officer of General Electric Company and Chairman of the President’s advisory council, recently stated about America: “This still is the world’s biggest economy. It still is an attractive place to do business. There’s no reason why we shouldn’t be a lot more aggressive and a lot more competitive and a lot more welcoming, and a lot hungrier, quite honestly, as a country.”⁷³

There are a great many things that Americans from varying walks of life disagree on in modern times. However, it would be difficult to find many people who would not agree that America is not as globally competitive as it once was. A recently published book by noted *New York Times* columnist Thomas Friedman, and Johns Hopkins University professor and foreign-policy expert

Michael Mandelbaum, called "That Used to Be Us: How America Fell Behind in the World It Invented and How We Can Come Back" expresses this sentiment of declining competitiveness. Though a David Kamp book review in the October 3-9, 2011 issue of *Bloomberg Businessweek* felt the book fell short of "big, concrete ideas to renew America," he felt the book was spot on in its underlying notion that "the broader lament is that America the superpower isn't super anymore. Massive budget deficits, political gridlock, economic inertia, underperforming schools – this isn't the thrifty, can-do U.S. that the Greatest Generation grew up in, fought for, and populated with cheery kids in coonskin caps and gingham pinafores."⁷⁴

Assumption 2: The United States has an unemployment problem

There are 14 million jobless Americans.⁷⁵ 9.3 million Americans are working part-time but would rather be working full-time.⁷⁶ 2.5 million more Americans have given up on looking for a job.⁷⁷ *Time* magazine columnist and CNN correspondent Fareed Zakaria wrote in a May 19, 2011 article that if you add "the actual number of Americans without a real full-time job" to "the millions who have stopped looking for work or are working part-time," to the official unemployment number, it would be close to 24 million.⁷⁸ Meanwhile, the U.S. youth (those between 15-24 years old) jobless rate is now above 24%.⁷⁹ Furthermore, according to a May 23, 2011 *Time* magazine article titled "When Companies Refuse to Interview the Unemployed for Jobs," 40% of the nation's unemployed, or 4.5 million people, are considered the long-term unemployed.⁸⁰ The long-term unemployed are those who have been out of work for a year or more. The current figure is the highest level since World War II. According to recent U.S. Department of Labor statistics, in just the last decade, the rate of unemployment in the United States has grown from 3.9% to 9.7%.⁸¹

Nationally, the unemployment rate from May 2010 to May 2011 fluctuated from 9.6% (May 2010) to 9.8% (November 2010) to 9.1% (May 2011).⁸² In June, 28 states plus Washington DC, saw their jobless rates rise whereas only 8 states saw decreases, according to the U.S.

Department of Labor.⁸³ For the 13th straight month, Nevada at 12.4% had the highest unemployment rate among states with California (11.8%) and Rhode Island (10.8%) following. North Carolina saw its unemployment rate at 10.4%⁸⁴ in August 2011, after losing 282,300 non-farm jobs from 2007 to 2011, and has exceeded the national unemployment rate every month since November 2010⁸⁵. North Carolina's underutilization rate, or U6, the federal measure that combines the unemployed with the underemployed^{iv}, was 17.5% as of March 31, 2011.⁸⁶ This is just shy of the state's highest U6 rate of 17.7% but more than double the 8.5% rate in 2008 and nearly a percentage point ahead of the March 31st national rate of 16.7%.⁸⁷

The impact of this U.S. unemployment has been felt far and wide and has led to widening disparities. According to 2010 Census findings, the racial wealth gap in America has grown. This undesirable growth, after decades of closing the racial wealth gap, has been attributed to the recession and an uneven recovery. Whites have 20 times the wealth of blacks and 18 times the wealth of Hispanics – the widest in a quarter-century.⁸⁸ Like most other minorities, blacks derived much of their net worth from employment and housing, neither which have rebounded; whereas whites, who receive 28% of their worth through savings, stock funds, IRA, Keogh, and 401K plans, have been able to see increases in their wealth as the stock market has rebounded. By June 2011, housing prices had fallen more than they did during the Great Depression, which took 19 years to recover.⁸⁹ Now, with unemployment at 16.2% for blacks, the highest of any racial group, the housing market continuing to decline, and blacks getting only 19% of their

^{iv} Those wanting full-time work but only working part-time

worth from non-employment and non-housing sources, this demographic has seen a dramatic drop in their wealth.⁹⁰ Hispanics, who got 67% of their net worth from housing and 15% from other non-employment sources, are only fairing slightly better.⁹¹ In 2009, the median wealth of white U.S. households was \$113,149 while it was \$6,325 for Hispanics and \$5,677 for blacks.⁹² In comparison, in 1995, the low mark of the wealth gap, whites had only 7 times the wealth of both other groups.⁹³

A June 27, 2011 front page article in the Money Section of the *USA Today* reported that the “recovery has largely left out the have-nots.” According to the article, households that earn less than \$50,000, identified as lower-income and making up half of the U.S. population, have seen a net decline of jobs for 23 of the past 24 months.⁹⁴ A monthly survey by *Consumer Reports* released in mid-June indicated this sector of the economy was very downbeat about the economy.

Overall, America has suffered almost 11 straight years of sub-4% economic growth, while inflation-adjusted median income has fallen, and poverty has risen from 9.6% to 12.5%.⁹⁵ Nationally, the number of food stamp recipients increased by more than 4.2 million people from April 2010 to April 2011, representing 44.6 million people or 14.5% of the U.S. population.⁹⁶ This is the highest number ever recorded since the program started. These trends are consistent with state level data. For example, in April 2011, 1.57 million people in North Carolina were on food stamps.⁹⁷ That figure is 16.2% of the North Carolina population, nearly double those that were on the program in September 2005, and the equivalent to the combined populations of the state’s two largest metropolitan areas^v.

^v The Triangle and Charlotte

It turns out that the low-income segment referenced earlier was not the only American citizens who felt downbeat on the economy. In May 2011, the monthly Consumer Confidence Index survey dropped to a six-month low of 60.8 (whereas a reading of 90 identifies a healthy economy), as consumers worried that higher prices and lower income would keep the economy from improving.⁹⁸ Gas prices rising to nearly \$4 a gallon^{vi} in spring 2011 (8.9% of monthly household income⁹⁹), higher food prices, home prices that have continued to decline, inflation outpacing worker pay, cutbacks in spending by state and local governments, and anemic hiring by the private sector has led many to believe a double-dip recession is on the horizon. The U.S. Department of Labor reported that when adjusted for inflation, pay was almost 2% less in August 2011 than it was a year before.¹⁰⁰ This is not good for job growth since consumer spending accounts for about 70% of the economy. Lower pay leads people to spend less, generate less demand for businesses, and result in little to no hiring. According to economists, the Great Recession ended in June 2009 and a recovery began. Yet, many have identified it as a jobless recovery.

Employment in the government sector has long been considered occupations relatively safe from layoffs. This is no longer the case. Nationally, in April 2011, 24,000 jobs in the federal, state and local government sectors were cut.¹⁰¹ Nearly 30,000 jobs were cut from local governments alone in May 2011. That number was the highest since November 2010. Tennessee, Missouri, and Virginia reported the largest job losses in June 2011. Combined, cities and counties have slashed jobs for 22 straight months with almost 450,000 public sector jobs vanishing since September 2008.¹⁰² These trends of public layoffs are expected to continue as states face increasing Medicaid and social services costs. Though state tax revenue around the U.S. is

^{vi} \$3.81 average

expected to recover, high unemployment rates that require unemployment payouts could eat away at those resources. The vicious cycle of declining property values and declining tax revenues for federal, state and local governments does not lend itself to much optimism. Thus the public sector is no longer seen as a viable employer of the massive number of unemployed Americans, as had been the case in past recessions.

In a June 20, 2011 *Time* magazine article entitled “Don’t Hold Your Breath,” Rana Foroohar wrote that American corporations, with stated profits 18% above 2010 levels and \$2 trillion on their balance sheets, show no willingness to spend those funds to hire workers in the U.S.¹⁰³

This prompted Austan Goolsbee, then head of the President’s Council of Economic Advisors, to bark that it was time for the private sector to “stand up and lead the recovery.” Based on recent trends, even prior to the Great Recession, it seems that scenario is unlikely to happen. From 2001 to 2007, companies employing fewer than 500 workers increased employees by 7 million, whereas businesses that employed 500 or more cut nearly a million jobs, largely sending those jobs overseas.¹⁰⁴

Offshoring of jobs to low-wage countries was once believed to be relegated to blue collar jobs such as manufacturing of furniture, automobiles, or electronics that were considered labor intensive and low-skilled. According to Fareed Zakaria, globalization has led to a single world for many goods and services. Since the mid-1990s nearly 400 million people across the world have become labor competitors of American workers, some offering to make the same goods and offer the same services as Americans at only ten percent of the cost.¹⁰⁵ April 2011 saw the U.S. service sector economy, which employ 90 percent of the American workforce, grow at the slowest rate since August 2010.¹⁰⁶ Joseph Sternberg, editor of the *Wall Street Journal Asia’s* Business Asia column wrote in a February 2011 article that “now comes the global revolution in

services” where “we are heading for a day when a Malaysian architect will sketch out a new office town for London” or “a specialist firm in Bangalore will administer health benefits for a Kansas company” because “such things are already happening on a modest scale.”¹⁰⁷

May 2011 saw the stock market tumbling to lows not experienced in over a year and the biggest decline in a key manufacturing index since 1984. Thirteen total economic indicators from home sales to factory orders to personal spending to auto sales and construction came in weaker than expected. Natural disasters in the U.S. and abroad cut production in some U.S. factories. This has led to a need for the economy to grow at least 5% just to generate healthy job growth.¹⁰⁸

However, many experts currently expect the economy to grow by only 2 to 3%. Though the U.S. Gross Domestic Product (GDP) has, in fact, averaged about 3% a year for the past 150-years, and in the eight quarters since the end of the recession has averaged just 2.5%, data revealed that GDP increased at an annual rate of just 0.4% in First Quarter 2011.¹⁰⁹ The U.S. Department of Commerce Bureau of Economic Analysis reported that GDP rose to a 1.3% annual rate for the second quarter.

February through April 2011 created an average of 220,000 jobs a month, but only 54,000 jobs in May, the fewest in eight months, and private industry hired only 83,000 workers, the smallest in nearly a year.¹¹⁰ The U.S. Department of Labor revised the number of jobs added in August 2011 from zero to 57,000 and reported that 103,000 jobs were added by employers in September.¹¹¹ However, that number is not considered enough to significantly impact America’s unemployment rate, which was 9.1% for the third consecutive month. It is estimated that employers need to add 125,000 jobs a month to simply keep up with population growth and at least 200,000 to positively impact unemployment.¹¹²

If Americans are counting on those firms employing under 500 persons referenced earlier that increased employment by 7 million between 2001 and 2007, it might be wise to temper those hopes. In 2007, there were roughly 6 million companies with workers on the payroll; however, 90% of those businesses employed less than 20 people.¹¹³ These firms, known to all of us as “small businesses” and “start-ups” are feeling their own pains. An analysis by McKinsey Global Institute, BEA, U.S. Department of Commerce and Kauffman Foundation found that when comparing to 1980 that by 2008 there was a 23% drop in new firms (i.e. start-ups) created per 1000 people in the United States.¹¹⁴ According to the Bureau of Labor Statistics, the U.S. is showing the weakest start-up growth since the Bureau started tracking the statistics in the early 1990s.¹¹⁵ The record high of 667,371 new businesses added from March 2005 to March 2006 far outpaced the record low of 505,473 new businesses added from March 2009 to March 2010, the last time the data was available.¹¹⁶

It is difficult to pinpoint exactly why start-ups have declined, but access to capital may be one obvious reason. Though *Wall Street Journal* columnist Kelly Evans wrote in a June 2, 2011 column (“Economy Needs a Borrower of Last Resort) that lack of funds is not what is hampering the U.S. economy, saying that “banks’ willingness to make consumer loans is at a 17-year high,”¹¹⁷ I am not sure that is fully accurate. He is likely correct that households are largely focused on paying off existing debt versus taking on new debt, with the exception of student debt. Perhaps his specification of “consumer” qualifies the statement, but I come across entrepreneurs daily in my role at the North Carolina Department of Commerce seeking capital for their small businesses. Yet, even the North Carolina Capital Access Program (CAP), funded with a \$46 million loan-loss reserve has not prompted banks to lend much in the state.

Though some small businesses do grow, like the numerous technology success stories we often hear, most small businesses are restaurant owners, skilled professionals (i.e. physicians, plumbers), service providers (pastors, travel agents, beauticians) and small-scale independent retailers, who remain small.¹¹⁸ Unlike the technology sector where drops in product costs drive growth, and innovation is key, the majority of business owners are more interested in “flexibility and freedom” than money, and have no intention of growing. Data from 2000 to 2003, reports that 80% of American small companies that remained in business surveyed during that period did not “add a single employee.”¹¹⁹ As it relates to businesses created between 2004 and 2008, only 3% of those firms added more than 10 employees during that period and even less applied for patents. Furthermore, data in 2009 by Case Western Reserve University economist Scott Shane found that small businesses over a five year period, as measured by a cohort of new companies, lost more jobs each year to bankruptcy than were added by those who remained in existence and that 22% of staff in companies with less than 100 employees are fired or quit each year.¹²⁰ In companies with 2,000 or more workers that number is 8%.

Average hourly wages at companies with more than 2,500 employees are close to \$27, while those firms with fewer than 100 employers average \$16. In addition, firms with less than 100 employees are half as likely to, offer retirement benefits, insurance and healthcare than those firms with more than 100.¹²¹ Most economists consider these small business trends bad news for U.S. job creation. For states like North Carolina, where 98.5% of businesses employ less than 200 people,¹²² the job creation challenge is daunting.

Nearly one-third of the unemployed have been out of work for more than a year. As indicated earlier, 4.5 million people are considered long-term unemployed. This includes many older workers who find it especially hard to find jobs. Even if they find jobs most economists feel that

such jobs would pay far less than their former jobs did. Some companies and employment agencies prefer job applicants who already have jobs or who have not been unemployed very long and see weeding out the long-term unemployed as a quicker way to shrink their candidate pool, assuming those individuals must not be top performers. The National Employment Law Project conducted a survey in early 2011 that “found more than 150 job postings on employment websites such as Career-Builder.com and Monster.com requiring that applicants ‘must be currently employed’ or using other exclusionary language based on current employment status.”¹²³

Most recently the Equal Employment Opportunity Commission has shown concern that excluding the long-term unemployed from job opportunities could have a greater negative impact on blacks and Hispanics who have higher unemployment rates.¹²⁴ This has been such a problem that President Obama has sought to address it as a part of his recent jobs bill through a provision that would make illegal the act of refusing to consider – or offer a job to – the unemployed by companies with 15 or more employees and employment agencies.¹²⁵ It would also prohibit disqualifying ads like those cited a few sentences back for those without jobs.

Unemployed youth also face challenges. It is expected that over the next two decades, for those currently unemployed youth who do return to work, that they will earn 20% less than their peers who are currently employed, threatening to have an entire generation of young workers permanently disconnected from labor markets.¹²⁶ This will have several impacts. The Baby Boomers, the largest part of the population will be in retirement and dependent on the young to pay into a benefit system in need of investment. Furthermore, young adults are less likely to own a home or more likely to post-pone their first-time purchase to live with their parents. Home equity, once a means of starting businesses, paying for a child’s education, or increasing

purchasing power will all be negatively affected. For both the long-term unemployed young and old worker their skills are likely to decline, their professional networks will shrink, and companies will be less likely to hire them. This pattern will lead to a self-fulfilling prophecy.

Though Federal Reserve Chairman Ben Bernanke is on record saying that any new government stimulus is unlikely because of lack of capital and the general political environment, he has tried a number of programs to wrestle with the unemployment challenge. The Federal Reserve Bank ended its \$600 billion bond-buying program at the end of June 2010.¹²⁷ The program was part of the \$2 trillion it has spent on mortgage and Treasury bonds to reduce the amount of securities in the hands of the private sector and to keep the borrowing interest rate near zero. Bernanke hoped this would spur borrowing that would lead to investment that would lead to job creation and growth. Rates have remained at historic lows, but have largely resulted in a flight of capital to Treasury notes, that have risen in popularity as a flight to safety for investors, instead of housing or small business. This has driven down rates on those notes. 10-year Treasury notes went below 3% for the first time in 2011. However, little job creation impact has occurred. Most people think that the Federal Reserve has done about all that it can to spur the market.

Officially, the economic recovery is going on three years. The American economy is slightly above its pre-crisis size of 2007 at \$13.5 trillion U.S. GDP.¹²⁸ Corporate profits for many companies have rebounded to 2007 levels. However, the rebound happened using 7 million fewer employees. Technology drove productivity up across both blue and white collar jobs and globalization continued to take its toll. The economy would need to regain 6.6 million jobs to reach its prerecession employment level.¹²⁹

Initial jobless claims^{vii} rose to 401,000 at the end of September.¹³⁰ The total number of continuing unemployment benefit claims was 3.7 million in the week ending September 24, 2011. Though it was down 52,000 from the prior week, there is difficulty in assessing whether that was driven by people finding jobs or simply running out of their benefit. A growing number of economists are now warning that the unemployment rate may remain perpetually high at 7% or higher for years to come, even referring to it as the “new normal.”¹³¹

Based on a 2011 survey of 1093 CPAs, corporate financial executives continue to worry about “inflation, weak demand, rising health costs and other factors,” which has left them reluctant to hire.¹³² Paul Wiseman of the Associate Press reported in a June 2011 article that the U.S. labor force seems to be shrinking though jobs continue to be added to the economy.¹³³ He reports that the number of unemployed has dropped by more than 1.3 million people since November 2010. However, it seems that would-be job seekers from all categories – women, men, and teenagers, have been participating less in the job search out of frustration for lack of opportunities. There were nearly 5 people, on average, for every job opening in April 2011 though a normal ratio is 2-to-1.¹³⁴ Consequently, even if every single job opening was filled, nearly 11 million people in America would still be unemployed. Others are kept out of the job market because of geography. 2010 saw home sales at their lowest level in 13 years¹³⁵ making moving for a job opportunity, when you cannot sale your home, more of a challenge.

Federal Reserve Chairman Ben Bernanke called long-term unemployment and high unemployment rate a “national crisis” and warned Congress in early October 2011 that the recovery is “close to faltering” and must be one of Congress’ top priorities.^{136 - 137} In Fareed Zakaria’s opinion – “the crisis of our time is the employment crisis.”¹³⁸

^{vii} New claims for unemployment benefits

Assumption 3: The United States needs a way to invest in the innovative energy economy in an environment of reduced resources

At the time of this writing, there is little being said about energy or energy policy in our nation's capital, with the exception of the Solyndra case. In 2009, Solyndra LLC, a solar-panel maker in California, received a \$535 million loan guarantee from the U.S. Department of Energy as part of the U.S. economic stimulus package.¹³⁹ Solyndra filed for bankruptcy protection in September 2011 setting off a wave of criticism from Republican leaders towards the Obama administration. At the heart of the debate are a series of White House emails regarding the process review of the loan-guarantee and whether "politics" influenced the decision-making of the investment in the firm because a Solyndra investor was a contributor to the President's campaign. The White House says no. Republicans say yes.

What is not being talked about at the national level these days is anything that comes close to resembling a federal energy strategy. This stands in stark contrast to the months leading up to the 2008 Presidential election where both the Republican and Democratic candidates spoke of the need for America to be an energy leader in the 21st century. There were three primary drivers of America's commitment to leading in the global energy economy: 1) global warming; 2) energy independence; and 3) jobs. Regardless of the results of the 2008 elections, most leaders from both the public and private sectors of the American economy anticipated some kind of comprehensive energy legislation that would limit greenhouse gas emissions and set the course for America to be the global leader in the green jobs economy. And once Barack Obama won the election, he did not disappoint in that regard.

Of the \$787 billion included as part of the American Reinvestment and Recovery Act (a/k/a the Stimulus Package) in 2009, a total of \$16.8 billion was dedicated to energy efficiency and renewable energy, including \$5 billion in weatherization funds.¹⁴⁰ Like every other state, North Carolina received its share of stimulus, which totaled \$6.1 billion in ARRA funds with \$76 million being targeted for energy projects and another \$132 million for weatherization.¹⁴¹

States were told to serve as pass-through agencies for these funds with local governments being the target. Local governments all across the U.S. scrambled to absorb amounts of money they had never before anticipated for use in an area (renewable energy and energy efficiency) that they knew little about. Vice President Joe Biden led a Middle-Class Taskforce focused on Green Jobs that delivered an October 2009 report and proposed strategy called, “Recovery Through Retrofit,” that outlined a path to economic recovery and job growth based on retrofitting homes with energy-efficient technologies.¹⁴² This green jobs movement all seemed to be a logical extension of what had been happening for several years.

The Green Jobs Act became Title X of the Energy Independence and Security Act (often referred to as the “2007 Energy Bill”), which Congress passed and President George W. Bush signed into law in December 2007.¹⁴³ The Green Jobs Act of 2007 authorized \$125 million per year to create an Energy Efficiency and Renewable Energy Worker Training Program.

Corporate America took it as a foregone conclusion that their carbon emissions would be regulated by the government and prepared strategies to comply including purchasing carbon offsets. Furthermore, these corporations seemed to embrace such a move by the federal government. An environmental policy known as “Cap and Trade” that would allow companies to buy and sell pollution credits in an open market was being supported by both Republicans and

Democrats as a solution to global warming, a major step towards energy independence for the U.S., and a way to create millions of green jobs. The U.S. EPA website refers to successful Cap and Trade Programs as those that “reward innovation, efficiency, and early action and provide strict environmental accountability without inhibiting economic growth.”¹⁴⁴

An innovative financing method, known as “the Berkeley Model” for the California community where it originated, but affectionately referred to as PACE (Property Assessment Clean Energy), was gaining traction across the United States. PACE provided property owners an opportunity to borrow money for installation of energy efficiency equipment, such as solar panels, and repay the financing through their own property tax bills over 20 years. This was seen as a monumental step towards making energy efficiency upgrades affordable for the average citizen and therefore a viable market for creating jobs.

States like my own, North Carolina, were intent on moving ahead of the curve. 2007 saw the creation of both, the North Carolina Green Business Fund by then Lieutenant Governor Beverly Perdue, managed by the NC Board of Science and Technology, and the historic Senate Bill 3.

The North Carolina Utilities Commission website¹⁴⁵ reads:

<p>On August 20, 2007, with the signing of Session Law 2007-397 (Senate Bill 3), North Carolina became the first state in the Southeast to adopt a Renewable Energy and Energy Efficiency Portfolio Standard (REPS). Under this new law, investor-owned utilities in North Carolina will be required to meet up to 12.5% of their energy needs through renewable energy resources or energy efficiency measures. Rural electric cooperatives and municipal electric suppliers are subject to a 10% REPS requirement.</p>

Two years later when Beverly Perdue was elected North Carolina’s first female Governor, she reconstituted the North Carolina Energy Policy Council, composed of recognized leaders statewide (of which I was proud to be a member), to advise her administration on short- and long-term energy strategy. In addition, the Governor reorganized the North Carolina Energy

Office to become a full-fledged Division of the NC Department of Commerce and created the state's first role of Assistant Secretary of Energy – a position first held by John Morrison, a long-time energy operations executive; and later Jennifer Bumgarner, a 1998 Rhodes Scholar; and Jon Williams, an attorney with strong experience in state government. In addition to North Carolina, 32 other states currently have renewable standards ranging from 105 megawatts in Iowa to 33% in California.¹⁴⁶ This kind of activity, along with the energy-related ARRA funds traveling to states, gave the impression that America was approaching its Sputnik Moment. A “Sputnik Moment” is defined as “a point where people realize that they are threatened or challenged and have to redouble their efforts to catch up. It comes from the time when the Soviet Union launched the first satellite, the Sputnik 1, and beat the USA into space.”¹⁴⁷

However, that was then... and this is now. The environment that led to such consensus on moving forward with a green economy in America, and the associated investment, seems like a distant memory.

America, though only 4% of the global population consumes 25% of the world's fossil fuel supply – 21 million of the 85 million barrels of oil produced worldwide daily.¹⁴⁸ The percentage of U.S. energy currently generated by renewable energy is just 11% - with hydro composing 7%, wind 2.4%, and solar, geothermal and biomass making up the rest.¹⁴⁹ Yet, no comprehensive energy bill has been debated or passed through either the 111th Congress, who began their term along with the President, or the 112th Congress who entered as a result of the 2010 midterm elections.

At the World Economic Forum in Davos, Switzerland in January 2011, political leaders said that government alone cannot address the challenges of global warming, and that businesses,

especially those in the United States must help to slow climate change globally. At the Forum, European Climate Commissioner Connie Hedegaard stated that though governments can create the right environment for green growth, “solutions have to come from business,” while noting that President Obama had failed to speak of climate change or global warming in the State of the Union speech he delivered a few days prior.¹⁵⁰ Mexican President Felipe Calderon stated that not much can be done without the United States being involved. “My perception is most of the people in the United States are afraid about the economic situation,” Calderon said. “They perceive this issue of climate change like an obstacle for their own progress. And we need to change that.”¹⁵¹

In President Obama’s defense, though he did not mention global warming or climate change in his January 2011 State of the Union speech, he has continued to talk about the opportunities of the energy economy. The President has set a goal of increasing the U.S. energy needs being supplied by clean sources from the current 11% to 80% by 2035.¹⁵² He may have his work cut out for him. Though liberal opinions have been virtually unchanged, polling indicates that conservatives have drastically shifted their opinion of global warming. In 2011, only 30% of conservatives believe climate change is real, down from 50% in 2008.¹⁵³ This brings the overall American total down to 49% from 61% in 2008.

Marc Morano, a former GOP Senatorial aid is quoted in a recent article saying, “Republican presidential hopefuls can believe in manmade global warming as long as they never talk about it, and oppose the so-called solutions.”¹⁵⁴ Morano’s point is demonstrated by four of the leading GOP presidential contenders in May 2011 – Jon Huntsman, Newt Gingrich, Mitt Romney, and Tim Pawlenty – all recanting their former stances on global warming by softening or outright apologizing. Gingrich is calling for the abolition of the Environmental Protection Agency,

though he once led an environmental studies program at a Georgia college.¹⁵⁵ Huntsman, Romney, and Pawlenty had all supported a regional “cap-and-trade” program to reduce greenhouse gas pollution in the past, however, they now have all stepped back from those stances. More recently, New Jersey Governor and popular GOP leader Chris Christie removed New Jersey from a regional program to reduce greenhouse gases. A number of Democrats are joining a Republican effort to limit the EPA’s regulatory power of greenhouse gases from industrial facilities. Based on recent concessions by the White House over dropping proposed stricter pollution and air quality standards to be regulated by EPA, there is reason to wonder what will be the impetus for driving the green economy forward. Though the solar market has expanded since 2000 at an annual rate of 69% and doubled in 2010 (as is expected again this year) and more U.S. homes are expected to include solar with no upfront cost, the jobs that were expected to come with that expansion have not occurred.¹⁵⁶ The PACE program, initially expected to drive the “recovery through retrofit,” was later challenged by federally backed housing guarantors Fannie Mae and Freddie Mac, in addition to the banking industry. This opposition virtually shut down the PACE program and any jobs that would have resulted.

The current Congress doesn’t seem to have a consensus needed to invest in a clean energy future as debates rage in Washington about spending limits and priorities. A chorus of Republicans called for ending the federal loan guarantee program for the Department of Energy that resulted in the Solyndra investment, whereas others have said that the United States government should stop investing in clean energy all together and focus more attention on loosening rules for fossil fuel exploration. In contrast, a number of Democrats, including the President, are calling for an end to the \$5.5 billion a year in tax breaks and royalty payments that the fossil fuel industry currently receives. However, fossil fuel industries spend \$200 million in lobbying and political

contributions annually, whereas the clean energy industries spend only \$30.7 million,¹⁵⁷ meaning that the former industry will continue to have a powerful voice in legislation. This leads one to believe that even if Congress can get pass its impasse over government spending levels (which seems remote), there is little chance that the green economy will see much public investment in the foreseeable future. With the U.S. Treasury expected to end its renewable energy grant program at the end of 2012,¹⁵⁸ the most prominent question is, “where will the investment for the clean energy economy come from?”

This is a question that a large number of people seem to have. In the Clinton Global Initiative America meeting that took place in early July 2011 in Chicago, former President Bill Clinton identified “cash for startups” as the second item on his “14 Ways to Put America Back to Work” list and the blueprint for creating clean energy jobs.¹⁵⁹ The need for cash investment in clean energy startups and small firms is something that had been burned into my consciousness only a few months prior. I had been asked to assist in arranging a meeting in North Carolina between small business owners and the White House so that the White House could learn what small business owners needed most. On a pleasant afternoon in the Triad region of North Carolina, nearly 40 small business owners – many from the clean energy space – spent nearly two hours sharing with senior leadership from the Obama administration about their hopes, dreams, challenges and frustrations, in an intimate roundtable format. Without a doubt, the overwhelming sentiment expressed by the leaders at that meeting was that capital was scarce yet very much needed to grow their businesses and consequently jobs.

Global new investment in renewable energy has risen from \$33 billion in 2004 to a record \$211 billion in 2010.¹⁶⁰ Though *Fortune* magazine reported that in the second quarter 2011, venture capital investments in U.S. green technology grew to \$2.57 billion, an increase from the first

The figures from these charts show that the United States is trailing in the new investment category when it comes to renewable energy. If this trend continues it could prove troubling for America. Though politicians and pundits disagree about the need or effectiveness of the 2009 American Recovery and Reinvestment Act, there is something that no one can disagree on. The funds that were dedicated to energy efficiency and renewable energy development at the local community level began an American experiment that is not yet complete. Thousands of communities around the country contemplated how to be more “sustainable” because the nature of the funds dictated such. In 2009, when the capital was made available to local governments all across the United States, large and small, few knew exactly what to do with such a windfall of resources as they were told to “go green” and “energy efficient.” However, communities, as they tend to do, adapted and began to learn more about how to retrofit their communities. It was quite a long and painful learning curve. Now, in 2011, as many of those communities are reaching a point where they are comfortable and knowledgeable about the clean energy space, the public funding for such projects is drying up and the private funding remains nonexistent.

If the United States is to thrive as a country in the 21st century, then its local governments must thrive as well. Those communities, whether large or small, rural or urban, must find the capital to modernize their infrastructure, housing and economic development including integration of sustainability and energy conservation. There seems to be limited avenues to that capital. The federal government, with rising deficits and increased partisanship is reducing its investment at the local government levels. State governments have increasing social services costs such as Medicaid, unemployment insurance and other costs that restrict its ability to invest in local governments. Finally, the local governments themselves have very limited resources – and they are declining. The world will not wait for them though. If local governments could transform

themselves into “sustainable communities,” it would lead to the outcomes sought prior to the 2008 Presidential election – reduction of global warming, U.S. energy independence, and green job creation. The United States needs a way to invest in the innovative energy economy in an environment of reduced resources.

In a June 2011 speech in Durham, North Carolina, at LED lighting manufacturer Cree, President Obama discussed strategies presented to him by his Jobs and Competitiveness Council that would create one million new jobs in two years. Those jobs would employ two million unemployed construction workers by making commercial buildings more energy efficient. However, the President conceded, prior to the end of his talk, that not much is expected by way of federal funding towards the effort.

Assumption 4: The United States is highly divisive and multi-partisan

Of the “Big Four” assumptions that I used to frame this Masters Project and use as a filter for identifying policy solutions, this fourth assumption is the one that probably could be defended the strongest without having to produce any quantitative data. One needs only to turn on a television set or to open a newspaper or tune into talk radio to see this reality. An August 2011 *Bloomberg Businessweek* article called the U.S. debt ceiling agreement “an unholy and bipartisan mess” and stated that “the debt ceiling deal was nurtured in a hothouse of ideology and blossomed in a storm of political machinations that put the nation at risk.”¹⁶³ That description could probably extend to most everything else in Washington, DC these days as what has historically been a two party system (Republicans and Democrats) has added a third (Tea Party). August 2, 2011 was considered the day of reckoning for the American economy and perhaps the global one as well. That was the deadline identified as the date when the U.S. federal

government would default on its debt obligations if an increase in the \$14.3 trillion debt ceiling was not agreed upon and enacted by Congress. The President and Congressional Democrats were asking for a \$2.4 trillion increase, while Congressional Republicans were demanding \$2.4 trillion in decreased spending to offset any increase. Though the anticipated crisis that would have resulted from a default was avoided by a last minute agreement, few think that no damage was done. On August 5th, the rating agency S&P downgraded the U.S. debt from its list of risk-free borrowers. The U.S. debt rating went from AAA to AA+, the first downgrade in U.S. history.¹⁶⁴ Furthermore, some argue that House Republicans from the Tea Party used the debt crisis to hold the economy “hostage” in order to “achieve their aims” and more so established a “template for the aggrieved, reckless, and intractable partisans of any future Congress.”¹⁶⁵

It is worth noting that the debt ceiling negotiations were not the first divisive legislation that pitted the current Congress against one another. Both 2010 and 2011 have seen many disagreements over the future of the country which have been played out through budget fights. As a consequence, this current Congress has passed a number of “continuing resolutions” to keep the government operating while agreements have been worked out between opposing parties. Wikipedia defines a “continuing resolution” as “a type of appropriations legislation used by the United States Congress to fund government agencies if a formal appropriations bill has not been signed into law by the end of the Congressional fiscal year.^{viii} The legislation takes the form of a joint resolution, and provides funding for existing federal programs at current or reduced levels.”¹⁶⁶ To put it into context, if a fiscal budget is not passed by the start of the new fiscal year (October 1) the Congress has to pass a continuing resolution (CR) to keep the bills paid. That resolution could be for as short as a few hours or as long as a few months. If no budget or

^{viii} The federal government of the United States operates on a budget calendar that runs from October 1 through September 20 each year

continuing resolution is passed, then the federal government will be forced to shut down its operations until another budget or CR is agreed upon.

Probably the most memorable federal shutdown in recent history occurred in 1995 as part of a standoff between President Bill Clinton and Republican leader Newt Gingrich, which many attribute to helping Clinton win re-election in 1996, following a backlash against the Republican leadership. However, there have been dozens of CRs passed since then to keep the government operating as Congressional members sparred over budget details. My Community Development Division at the North Carolina Department of Commerce was impacted very recently by the near government shutdown in spring 2011. On a late Friday afternoon in April 2011 around 4:30pm, our Community Investment Director was forced to tell her federally funded staff that they could not return to work on Monday unless an agreement or new CR *was* passed over the weekend by Congress. A new CR was passed prior to midnight, just in time to avoid a shutdown, but without fully resolving the underlying arguments of spending versus cuts that served to divide the political parties. However, the passage of the CR did not end the impact on my staff. Later in the spring, a budget for FY 2011 was finally passed (though the fiscal year had officially begun some eight months before). That budget saw major cuts to a number of entitlement programs, including to the Housing and Urban Development's Community Development Block Grant (CDBG) Program, one of my Division's primary funders. CDBG experienced a 16% reduction which equated to a loss of \$7 million for community development projects in North Carolina.

More recently, as Congress approached the start of another fiscal year (FY2012) at the beginning of October 2011, without yet agreeing on a long-term budget, they were forced to pass another CR. On September 23rd, in the early morning, the U.S. House passed a FY2012 CR to keep the government operating until November 18, 2011 – just prior to Thanksgiving break. If a budget

agreement is not decided upon by that time, another CR will have to be passed. This is a similar path to the process that led to the near shutdown regarding the FY2011 budget. At the heart of the disagreement continues to be the unsettled debate regarding U.S. government spending versus cuts. Since this is more than simply a fiscal debate, but also a philosophical one about the future of our republic, the road to a consensus does not appear to be an easy one.

Bloomberg Businessweek columnist Brendan Greeley compared the political posturing happening in Washington to Game Theory, the World War II era strategic theory popularized by Hungarian-born mathematical wizard John von Neumann. “A game theorist would say that the President is trying to play a cooperative game in a town that can’t play along with him,” the Greeley article noted. “The trouble for the White House is that the Republicans aren’t playing a game called ‘fix the budget deficit.’ They’re necessarily playing one called ‘defeat Barack Obama.’ A reasonable offer seldom works in a divorce; there’s no reason to expect it would in Congress.”¹⁶⁷

In early September 2011, in a primetime speech to a joint session of Congress and the American people, President Obama proposed the American Jobs Act. However, the President’s job bill faces many challenges in Congress, as Republicans are in opposition of any tax increases on the wealthy and in favor of more spending cuts.¹⁶⁸ If the response to President Obama’s decision during the summer debt ceiling talks to agree to a deal that would cut \$2.1 trillion in spending over 10 years, with no increases in revenue, is any indication of what he might expect from any compromises on his bill, then he must tread lightly.¹⁶⁹ His own supporters felt scorn. The global markets felt disdain. Meanwhile, the Tea Party arm of the Republican Party lamented that the deal did not go far enough in cuts.

Referencing a new game theory book called *Game Theory and the Humanities* by Steven Brams, the Greeley article talks about “anger” – real or feigned – as sometimes an effective tactic. He compares the “non-cooperative” game in Washington to the Aristophanes play *Lysistrata*, where “the women of Athens and Sparta withhold sex until their men sue for peace.”¹⁷⁰ Consequently, the women of Athens were forcing their men to turn a non-cooperative game into a cooperative game. He notes that the Tea Partiers, like the women of *Lysistrata*, “have withheld their affections from both the Democrats and the Republican leadership”¹⁷¹ as demonstrated by their voting patterns and forced a cooperative game – albeit a game that few seem to find particularly satisfying in the end.

If the political leaders in Washington seem dissatisfied, the constituents that each represents are just as frustrated. Brams suggests that frustration and anger cannot be disconnected and ultimately both come from a sense of powerlessness. This combination of frustration, anger and powerlessness may explain why citizens of all political beliefs are taking to the streets in protest around their individual discontent. At many different points in time, particularly since the 2008 elections, numerous protests from both liberal and conservative gatherers have taken place all across America.

Currently, a national campaign based initially on the “Occupy Wall Street” protest, has grown to reach all parts of the country. Feeling as though they are getting no relief from politicians in Washington, blacks, whites, and Latinos, blue and white collar workers alike, have rallied against a number of grievances they say are related to corporate greed and government *laissez-faire*.

On Monday, October 10, 2011, the Durham Herald-Sun reported that “more than 100 determined, frustrated, committed, fed-up and occasionally angry residents gathered Sunday afternoon” as a part of the “Occupy Durham” protests.¹⁷² Signs reading, *“The Banks Got Bailed Out. We Got Sold Out,” “Corporations are not people,” “Protect your rights. Decentralize government,”* were on display at the protest. The following quotes by those in attendance came from the Herald-Sun article¹⁷³:

- *[What we all have in common] “is that we are the 99 percent who are getting nothing while the other 1 percent is getting everything.”*
- *“I’m here because the way things have been going just makes no sense. It’s about time people confront those who have all the power. Something really needs to shift in this country.”*
- *[I came to the gathering] “because a lot of people are suffering – and no one seems to be doing anything about it.”* stated a lady whose machinist husband had been laid off and out of work for two years
- *“We’re here to support all the people like us, not to support the corporations. We are the people. We are the voice.”*
- *We wanted people to have a stronger sense that others are interested in this, and that we can all come together. In order for anything to change, we have to have a stronger community. Everybody has their own agenda. But today we got an appreciation that we’re all working toward the same goal. We’re not against something. We’re trying to stand up for something.”*

Those are very strong sentiments. Though no one in the article spoke specifically about whom the protests were aimed, one gets a sense that they are aimed at almost everyone. The President.

The Congress. The Corporate Titans. “Move your money out of big national banks into smaller, local ones. Wear black on Fridays and refuse to shop. March on the legislature. Create a tent city in the center of Durham,” were all ideas the newspaper stated had been expressed at the rally. It must be noted that there are also a sizable amount of American citizens who disagree with the “Occupy” crowd. However, they are likely to be angry and frustrated about their own issues.

It seems that it has been a long time since anyone, save the President himself, has expressed the idea of “getting along.” The President recently told Ron Suskind that he continues to seek “the ‘perfect technical answer’ to every problem – policy proposals, like the stimulus or health-care reform, that respectfully weave opposing viewpoints into some sort of pragmatic whole.”¹⁷⁴ The *Newsweek* article by Andrew Romano that told of the conversation also stated that “as president, Obama has assumed the role of the bipartisan realist – the leader who prides himself on seeing the world as it is, with all its political limitations, and doing the best he can within those constraints.”¹⁷⁵ Certainly one of the constraints currently limiting what the President, in addition to the Congress, can achieve is the divisive nature of the political environment. Multi-partisanship and conflict is good for the country, when it moves us collectively to a higher level; not so much when it plunges us to lower depths.

In an October 2, 2011 article by Charles Babington of the Associated Press entitled “Congress’ Dysfunction Long in the Making” begins with the questions “How did it get this bad on Capitol Hill?” and “Why does Congress barely function today?”¹⁷⁶ He goes on to compare the current legislative branch’s gridlock, unable to agree on the most minor and routine things – like an annual budget to keep the government functioning or domestic disaster aid, to an avalanche that has been accumulating for many years. Babington identifies “partisanship,” voters unwilling to

accept compromise or political centrists, legislators who put party first and the public's welfare second, gerrymandering of political districts, and "unprecedented" brinksmanship. Meanwhile, a recent Gallup poll found that a "lack of faith in Congress" was at a record-high.¹⁷⁷

Yet it is hard to deny that America is in the midst of a battle for its soul. Few can seem to agree to what that "soul" should be. In a country faced with a stalled economy, an aging population and expanding inequality – where roughly 1 percent of the nation's citizens own nearly a third of its wealth – there is much needed to see a more prosperous future. The *Bloomberg Businessweek* article that called the debt ceiling agreement "an unholy and bipartisan mess" suggested that "in addition to fiscal restructuring, the U.S. needs political renewal" and ended by stating: "But it must be made to work. Congress should use the breathing room it provides to find creative long-term fiscal reforms that focus not just on avoiding crisis – but on creating a government that's smarter, fairer, and more innovative. Done the right way, the boring work of crafting budgets can be an edifying national experience. We've seen quite clearly what happens when it's done the wrong way."¹⁷⁸

The "Big Four" Policy Design Standard

Utilizing those four assumptions as the basis for optimal policy design, this MP will not consider any policy solution that does not address each of those elements, in addition to the 2004 HIA shortcomings, as being desirable. Therefore, any repatriation policy proposal must ask and answer the following questions affirmatively: 1) Does this policy have the potential to make the United States more economically competitive in both the short- and long-term? 2) Does this policy have the potential to create jobs for the large number of unemployed citizens in the United States? 3) Does this policy have the potential to power the innovative energy economy through

investment capital? and 4) Does this policy have the potential to overcome the highly divisive and multi-partisan nature of the many stakeholders who would have to weigh-in to this policy including political leaders, corporate leaders, and individual citizens?

If each of those questions can be answered with a “yes,” while addressing the shortcomings of HIA 2004, then I feel repatriation legislation has the chance of adoption.

3 Project Scope and Focus

3.1 Scope Statement

This Project will deliver the concept for a “Sustainable Community Energy Bond,” which will also be referenced as a “Repatriation Bond,” (a derivative of a “Social Impact Bond) to government leaders at the federal level for policy consideration. A Social Impact Bond (SIB),^{ix} also known in America as a *Pay for Success Bond*, is defined as:

“a contract with the public sector in which a commitment is made to pay for improved social outcomes that result in public sector savings. The expected public sector savings are used as a basis for raising investment for prevention and early intervention services that improve social outcomes. Social Impact Bonds are not bonds in the conventional sense. While they operate over a fixed period of time, they do not offer a fixed rate of return. Repayment to investors is contingent upon specified social outcomes being achieved and therefore in terms of investment risk Social Impact Bonds are more similar to that of an equity investment.”¹⁷⁹

^{ix} In the UK, the first Social Impact Bond run by Social Finance was announced on March 18, 2010 by then Justice Secretary Jack Straw.

3.1.1 Secondary Project Focus and Bias: Impact Investing

Identifying a “secondary” project focus for this MP might be a stretch since the vast majority of my time and effort was focused on repatriation legislation and related information; however, I will do so because I recognize there is a certain perspective that undergirds this work. I also classified it in the sub-title as a “bias.” What I mean by “bias,” in this sense, is that I approached the work of this Masters Project through a specific “lens.” That “lens” is “Impact Investing” which is defined as “actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor.”¹⁸⁰ Impact Investing is a term that was coined to make an attempt at consolidating a wide range of other terms¹⁸¹ used to describe similar activities including – Socially Responsible Investing, Social Investing, Mission-Driven Investing, Sustainable and Responsible Investing, Blended Value, Values-Based Investing, Mission-Related Investing, Ethical Investing, Responsible Investing, Impact Investing, Program-Related Investing, Triple-Bottom Line, and Environmental, Social and Governance Screening, to name more than a few.

I have long been a supporter of the idea of investing for social and environmental impact, as I alluded to in my earlier personal background information. I know that I have not been alone. Many others all across America and the world have long had the same interest and I would dare say passion. As I stated earlier, when you are a carpenter trying to build something and the tool you have is a hammer, everything looks like a nail to you. Consequently, as I worked on this project, I wanted to utilize it as a means of not only discovering what the opportunity was for designing policy that could support the effort to attach repatriated funds to sustainable community development in the 21st century, but to also do so in a way that would simultaneously elevate the fast-emerging impact investing industry. Therefore, my personal bias, which is

evident in this project, is that impact investing has the potential to offer America and the world a dynamic tool when it comes to addressing social and environmental problems in market-driven and economically viable and sustainable ways.

In January 2009, The Monitor Institute released a seminal report in the impact investing field entitled “Investing for Social and Environmental Impact: A design for catalyzing an emerging industry.” With the lead support of the Rockefeller Foundation, and additional funding from the Annie E. Casey Foundation, W.K. Kellogg Foundation, and JPMorgan Chase Foundation, the report conducted over 50 original interviews.¹⁸² Those interviews represented a broad range of investors that included individuals, investment bankers, institutional investors, foundations, pension funds, and family offices – all having some experience and/or interest in the impact investing space. The report shared its findings via four sections¹⁸³ categorized as: **1)** a description of the emerging industry; **2)** hypotheses about how impact investing might evolve; **3)** an approach for accelerating the growth and impact of this style of investing; and **4)** a call to action for building the industry.

The Monitor Report (as it is sometimes referred) outlined a list of **opportunities** and **challenges**¹⁸⁴ that must be faced if the industry is to advance from one that is emerging to one that is mature.

Opportunities

- 1) *Growing interest among capital providers*
- 2) *Greater recognition of the need for effective solutions to social and environmental challenges*
- 3) *A steadily developing track record with early successes*

4) *A flock of “next generation” talent interested in careers in this space*

Challenges

- 1) *Lack of efficient intermediation to reduce search and transaction costs, measure and understand risk, and properly compensate intermediaries*
- 2) *Lack of enabling infrastructure that bridges the historical gap between philanthropy for impact and investment for returns*
- 3) *Lack of sufficient absorptive capacity for capital (i.e. lack of impact investing opportunities into which large amounts of capital can be placed at investors’ required rates of return)*

The report also estimated that over the course of a 5-10 year period (base-year 2009), impact investing could grow to represent nearly 1% of all current assets under management – totaling \$500 billion.¹⁸⁵ There seems to be an increasing interest in the connection between environmental and social stewardship and economic growth. Nike, the sports apparel giant, recently established a venture capital offshoot to invest in startup firms focused on alternative energies and efficient manufacturing. According to the information related to the fund, though they haven’t yet made an investment, the technologies Nike invests in could help them produce their “products more sustainably and cheaply.”¹⁸⁶ Nike’s initiative, known as the Sustainable Business and Innovation Lab, will look to startups to help them maintain innovation as in-house research budgets continue to decline – a practice increasingly popular with major companies. Nike’s effort shows that big business can find a way to invest for profit and for impact at the same time.

The Monitor Report ended with a “call to action” by stating: “Investing for impact can have a powerful new role in the world. With commitment and rigorous action the perils of this moment can be avoided and the industry’s promise can be realized, applying the wealth of our era to address some of our most troubling social and environmental challenges.”¹⁸⁷ Therefore, the lens that I peered through as I worked on this project and the concept of the first “Sustainable Community Energy Bond” funded by repatriated dollars was focused on whether I could simultaneously suggest policy that would be effective at the primary goals of American competitiveness, job creation, sustainable community investment, multi-partisan support, but also support the growth of the emerging impact investing space.

3.2 Defining Project Deliverables

- This Project will deliver a policy document, in the form of a Memo, for consideration by Executive and/or Congressional leadership of the federal government regarding tax policy related to incenting or financing green job growth in the U.S. for both the short- and long-term.
- This Project will share its theories with a broad range of stakeholders.

3.3 Defining Project Exclusions

- This Project will not actually draft a legislative bill, though it will offer suggestions for an applicable policy via a Policy Memo
- This Project will not explore the other elements that determine the viability of legislation – such as political gamesmanship. Political game theory is a reality that determines the likelihood of any legislation being passed, especially in a multi-partisan environment, however it is beyond the scope of this MP.

- This Project will not offer any strategies for moving the resulting Policy Memo into legislation though it will be offered up as a strong policy proposal that is timely in the present environment.
- This Project will not attempt to gather any new data (through surveys, focus groups, etc.) related to the 2004 Repatriation Tax Holiday, but instead only analyze existing data.
- This Project will not explore possible policy responses from foreign countries who might stand to lose if more funds were repatriated by corporations to the United States.

3.4 Project Assumptions

- It has been assumed that neither the major corporations nor the federal government have an immovable position on repatriation and that if presented with the right policy tool, that both would be willing to compromise if it was in the best interest of all stakeholders; but especially the American public.

3.4.1 The Sweet Spot?

- It has been assumed that the emerging area of “Impact Investing” may be a method of leveraging capital that can draw multi-partisan support. In 2009, the Obama Administration launched the nation’s first Office of Social Innovation (OSI), a department under the U.S. Domestic Policy arm of the federal government. OSI has since launched a number of initiatives including work on securing \$100 million worth of federal support for Social Impact Bonds and garnering \$50 million for a Social Investment Fund for high performing nonprofits, among others. The Office of Social Innovation has seemed to garner at least bi-partisan support in Washington, DC and perhaps bi-partisan skepticism. Nonetheless, it seems to be an area where leaders from all sides are willing to take a wait and see attitude, which at least implies that they are

willing to withhold judgment on the initiative until it has been given sufficient time to measure its results. I built into this project the assumption that perhaps “Impact Investing” might be “the Sweet Spot” where normally bickering politicians can find some common interest and ground in modern times? I did no further research on that assumption but did build it into my policy modeling.

4 Materials and Methods

4.1 Research Questions

In seeking out information for this study, with the goal of identifying a potential policy prescription to connecting repatriated dollars to sustainable community development, I identified a series of questions I wanted to answer. I identified 12 such questions that I found relevant to my analysis and policy development. They were:

- What is the history of foreign profits earned by U.S. based corporations?
- What is the history of foreign profits earned by U.S. based corporations being repatriated?
- What elements of any policy would make various U.S. stakeholder groups pleased/displeased?
- What is a possible compromising element of any effective policy solution?
- What are the current overarching political, social, and economic philosophies of various U.S. stakeholder groups?
- What are the short- and long-term drivers of the two disputing parties – U.S. based corporations and U.S. federal government?
- What are possible acceptable tradeoffs of each of the disputing parties?

- How should America define its “competitiveness?”
- What is the current repatriation process?
- What are the incentives of each of the disputing parties to cooperate or not cooperate?
- What is the likely response of a corporation’s repatriation decision based on various repatriation tax scenarios?
- What does the U.S. green (energy) economy need most to create U.S. jobs?

4.2 Research Methodology

The original research design of this Project included a variety of quantitative and qualitative research methods such as focus groups, corporate and governmental surveys, and individual interviews. However, prior to the Project, it became evident that neither of the major parties engaged in this dispute (i.e. corporations or Executive Branch Administrative officials) or relevant stakeholders (legislators) wanted to go on record, even if final data was presented with no identifying characteristics. This fact changed the way the research for this MP was conducted.

Instead of gathering new information from subjects, I focused on literary review, including previously published data. I was also able to take part in a roundtable hosted by the White House that offered insight into several of my relevant questions indirectly. Additionally, since I have direct experience in both sectors, corporate and governmental, I was able to glean information from past experiences, meetings and conversations, in an attempt to design what I felt would be relevant policy.

Therefore, my methodology focused on gathering already existing data and information to answer the 12 research questions previously identified.

4.3 *Literary Review*

The topic I first stumbled across on the cross country plane trip in October 2010 turned out to be fortuitous. It was fortuitous because at the time that I gained interest in the subject, I did not realize that it would become such a hotly contested debate over the months that followed. But it did. The growth of that debate created a richness, timeliness, and relevance to the data. Though many individuals had been hesitant to go on any “formal record” in talking to me, there were a number of persons from both the corporate and government sides to go on public record in talking about this dispute. This delineation was likely driven by two factors. Firstly, I suspect that each side was attempting to sway public opinion by gaining public sympathy or support for their viewpoint and casting the opposition in some sort of villainous shadow. Secondly, each side had an official and unified “on record” stance on the matter. Like in many other situations when coalitions or groups rally behind a particular viewpoint, it is seen as a weakness if either side has defectors willing to admit any legitimacy to the other side’s claim. The corporate stance had been to return the money with absolutely no strings attached, whereas the government was saying that there would absolutely be no reduction in the repatriated tax rate without a guarantee of job creation by the participating corporations. Any individual of the warring groups who conceded that maybe strings would need to be attached or that there might be value in allowing money to return that did not force a job guarantee would not be looked on favorably from their leadership.

But since this debate was taking place in a very public way, I was able to gather a large amount of the same insight I would have gleaned from my own survey or focus groups. I was able to gather from literary review many sentiments regarding the social, political and economic positions and/or philosophies of each side of the debate.

My literary review fell into 4 primary categories:

- *Past Legislation*

Since a repatriation bill already existed on the books in the form of the 2004 Homeland Investment Act Legislation, I was able to explore that legislation directly in its final form and some of the previous iterations.

- *Past Studies*

The 2004 Homeland Investment Act Bill was an extremely high profile piece of legislation. It had, for the first time in history, allowed major U.S. corporations to return sums of capital to America at a drastically reduced tax rate. However, it was equally scrutinized for what it was supposed to do – create millions of jobs. Since the end of the Tax Holiday, a number of scholars have done extensive studies on the effectiveness, or non-effectiveness, of the legislation; and the reasons behind that success or failure.

- *Periodicals*

I count magazines, newspapers, books and television as periodicals that I utilized in this work. Because the interest around the topic of repatriation continues to grow, and has expanded greatly in 2011, there is a wealth of contemporary information available for analysis. One example of how this topic has gone mainstream, is that the topic of repatriation was the lead story of the television news show, *60 Minutes*, in April 2011. The program was broadcast immediately following the NCAA Elite Eight Basketball game between the University of North Carolina at Chapel Hill Tarheels and the University of Kentucky Wildcats.

- *Internet*

A Google search of “corporate repatriation” returns 1.7 million records in 0.19 seconds.

A number of online posts in the form of articles, blogs, and commentaries appear on the internet, including new posts every day.

- *Current Legislation*

As I concluded my research, a twist was thrown into the mix, as North Carolina Senator Kay Hagan and Arizona Senator John McCain introduced a bipartisan repatriation bill called the Foreign Earnings Reinvestment Act related to repatriation tax reduction.

Though I categorized this literary review through the lens of “repatriation,” I used these same means to research broader questions identified in this report as well, such as the questions related to U.S. competitiveness, unemployment trends, energy policy, and the characteristics of America’s multi-partisan environment.

5 Results and Observations

5.1 Homeland Investment Act (“HIA” or “HIA-1”) of 2004

The Homeland Investment Act of 2004 has been a policy that many have written about since its passage. It is estimated that between \$300-315 billion was repatriated as response to the legislation in 2005 according to the Bureau of Economic Analysis, a part of the U.S. Commerce Department. In 2005 some of the noted companies reporting major overseas earnings were Merck, Dell, and Coca-Cola. Pfizer had \$38 billion itself in overseas profits at that time. In the 2005 Forbes.com article, “Truth or Consequences in the Repatriation Act,” writer Ken Bezozo classified HIA as “either [it’s] an exquisite engine for expansion of our domestic economy, or [it’s] one the biggest boondoggles in U.S. government history.”¹⁸⁸ Six years later, if you ask for

opinions on which it turned out to be (an exquisite engine or biggest boondoggle), you will get varying responses.

Some have praised HIA-1 as having increased the strength of the U.S. dollar as the \$300 billion was converted from other currencies into dollars and the possibility of that being “dollar positive” and strengthening the attractiveness of U.S. companies and markets.¹⁸⁹ Others say that the investment of cash in the economy in 2005 via shareholder dividend payments and share buybacks had a positive economic outcome since investors theoretically either spend such cash in the economy or reinvest it.¹⁹⁰

Other reactions to HIA-1 have not been so positive. The National Bureau of Economic Research released a study in early June 2009 titled “Watch What I Do, Not What I Say: The Unintended Consequences of the Homeland Investment Act.” The study was written by Dhammika Dharmapala, a University of Illinois law professor; associate professor of finance at Harvard Business School, C. Fritz Foley; and Kristin J. Forbes, a member of President Bush’s Council of Economic Advisors from 2003 to 2005, who is now a professor of economics at the Massachusetts Institute of Technology.

Though HIA-1 forbade repatriated money from being used to increase dividend payments or to repurchase shares, the study estimated that nearly 92% of the \$300 billion in cash that companies brought back to the U.S. was used to buy back shares and increase shareholder dividends. And though Ms. Forbes was quoted in a 2009 interview saying, “the restrictions on how the money will be spent seem to have been completely ineffective,” the authors of the study said their findings did not indicate the companies broke the law.¹⁹¹ Instead, the corporations used creative accounting. For example, Dell Computer, who lobbied aggressively for HIA-1, indicated that it

would use some of the repatriated funds to build a new plant in Winston-Salem, North Carolina. Though Dell repatriated \$4 billion, and spent \$100 million on the facility, they also spent \$2 billion several months later for a share buyback and later admitted that the North Carolina plant would have been built even if HIA-1 had not been in place.¹⁹² To the chagrin of many people in North Carolina, the plant ceased operations in the state in 2010.

A second HIA-1 criticism was a January 2008 document written by the Washington, DC-based Center on Budget and Policy Priorities. In that document Avia Aron-Dine expressed three points that argued against doing a second Homeland Investment Act, which one of the original supporters, Senator John Ensign, was offering as part of a stimulus package. Those three points were that: 1) The Ensign Amendment would not provide effective stimulus; 2) Requirement to reinvest earnings in the U.S. proved ineffectual in 2004; and 3) Another tax holiday will lead firms to expect more tax holidays, with unfortunate consequences.¹⁹³

On the first point, the paper argues that just because a firm has access to capital does not mean that it will invest it immediately since investing decisions are part of larger capital outlay decisions generally driven by demand and return on investment, not on availability of cash. The author cites a Goldman Sachs analysis that supports that conclusion and states that “the most promising strategy for boosting business production and investment during a slowdown or recession involves measures to boost consumer demand, not measures to simply boost business cash flows.”¹⁹⁴

The second point argued by Aron-Dine was that several things rendered the requirement to reinvest in the U.S. ineffectual. The first was that even though HIA-1 required firms to come up with investment plans to qualify for the program, that large scale investment takes a long time to

plan and execute, so HIA-1's effectiveness as a stimulus measure was unlikely. This finding was supported by a document from the Congressional Budget Office in January 2008 titled "Options for Responding to Short-Term Economic Weakness." Secondly, by referring to a December 2004 Urban Institute-Brookings Institution Tax Policy Center brief written by Kimberly Clausing titled "The American Jobs Creation Act of 2004: Creating Jobs for Accountants and Lawyers," the argument states that corporations are able to legally rearrange their financial sources in a manner that can both "meet the requirement of the law without changing their underlying investment decisions." Therefore, an increase in investment in the U.S. is not a foregone conclusion simply because repatriation legislation is passed. One of the most cited issues from HIA-1 was that although the 2004 law forbade using repatriated funds for share buybacks, dividends to shareholders and executive pay, that a significant portion of the dollars were used for those exact purposes.¹⁹⁵

The third point of the Aron-Dine paper was that another tax holiday (i.e. HIA-2) would prove disastrous to long-term tax policy and revenues for the United States. Simply put, this argument reasons that if Congress was to enact a second tax holiday, within seven years of the original holiday, it would signal to corporations that more tax holidays are forthcoming if they could just be patient until the next downturn. Furthermore, the paper concludes that corporations would be more likely to use tax havens outside the U.S. as a default strategy since they would have an incentive to claim the profits via foreign earnings versus U.S. earnings. The conclusion is that very little tax revenue would come to the United States. The notion is a second HIA would make it less likely for firms to invest in America on a regular basis because they would simply wait for another tax holiday before investing in the U.S. – which is the exact opposite of what the Homeland Investment Act was supposed to do. The paper concludes that "it will also reduce

[taxable] corporate revenues for years reaching far into the future, violating the principle that stimulus measures should not increase deficits beyond the next year or two.”¹⁹⁶

Though much beyond the examples I have cited has been written and debated about this topic of repatriation, one more unique perspective on the Repatriation Act is worth noting. A Congressional Research Services Report for Congress by David Brumbaugh focused on whether repatriation should be temporary or permanent. The analysis makes the argument that repatriation legislation’s impact on repatriation is strongly tied to whether the repatriation is temporary or not. The paper states that “a temporary tax cut may indeed trigger increased repatriations, although whether U.S. firms would use the funds to finance increased investment is uncertain. A permanent tax cut on repatriations would likely have no impact on repatriations and may encourage U.S. firms to increase their level of new investment abroad.”¹⁹⁷ Brumbaugh is also concerned about the impact of a rising dollar on U.S. exports, leading to a possible decline and muting the results of the repatriation, according to the paper.

Following an extensive literary review, including the studies previously referenced in this section – as well as other post-Act analyses, the most prominent and repeated arguments related to HIA-1’s shortcomings and challenges can be summarized in the following nine points with explanation of the issue *italicized* (numbered 5.1.1 thru 5.1.9):

5.1.1 Money is fungible

The “fungibility” of money was an ongoing theme. This simply means that there are many creative ways of shifting money around. Much of the criticism from HIA-1 was that firms had been creative, with the assistance of their attorneys and accountants, at shifting pools of capital around in such a way that they could be in compliance

with the Act but not create the new investments they promised. For example, a firm might have made plans to build a new factory in America prior to repatriation and had funds set aside for that purpose. Since stock buybacks was an ineligible expenditure with repatriated funds, after repatriation the firm might shift the set-aside factory money over to an account to do stock buybacks and instead use the repatriated funds to build the factory (a project that would have happened anyway).^x

5.1.2 Temporary tax holiday is better than a permanent tax break to drive capital repatriation

A permanent change in tax law will create no change in the repatriation rate of funds to the U.S., only a temporary change would do that. The thought behind this sentiment is that corporations only repatriate funds as needed or whenever a unique opportunity to do so arises (like a temporary break). Therefore if the rate was lowered permanently there would be no incentive to return capital except when needed.

5.1.3 A second tax holiday would be disastrous

Though there was a sentiment that a temporary tax holiday was better than a permanent tax reduction for bringing capital back to the United States quickly, it was also felt that instituting a second tax holiday would be disastrous. The notion is that a second holiday within seven years of the original would give corporations the sense that all they would need to do in the future to bring back the capital at a reduced rate is create a new coalition and wait out the Federal government until it got so desperate that it caved.

^x The Winston-Salem, North Carolina Dell project is an example of this

5.1.4 Repatriated funds more likely to go to stock buybacks and executive compensation (not new investment in new Jobs and Research & Development)

This position states that simply because firms return capital to the United States does not mean that they will invest in job creation. In laymen's terms, a firm would not spend money on something just because they have the cash. Instead, investments are only made when there is an investment opportunity and not necessarily based on tax rates. Thus the firm would bring the capital home and engage in reallocation of funds to allow them to pay shareholders, buy back company stock, pay off current debt or increase executive compensation.

5.1.5 Repatriation only benefits large corporations

The law only benefits large corporations, is a common theme, especially since it's those corporations that have the largest amounts of offshore profits. The law provided that the deduction of the 2004 Act was limited to \$500 million or the amount of the permanently reinvested earnings disclosed. Under this provision, prior to the passage of HIA-1, it was estimated that 282 corporations would save a total of \$38.84 billion in taxes as a result.¹⁹⁸

5.1.6 Repatriation is driven more by needs and availability of other opportunities than by repatriation tax rates

The view is that as long as it is more profitable for a firm to invest its overseas capital in foreign investments then they will do so. As international opportunities become increasingly scarce those firms will look for more opportunities closer to home. Thus, the reason that U.S. corporations have over \$1 trillion overseas and want to repatriate it is because their investment opportunities in other countries are limited.

This argues that corporations only lobby for repatriation relief when there is a dearth of foreign opportunities and unused cash accumulates at low return rates. Stock buybacks, debt reduction and a dividend declaration is sometimes seen as a quick way to see a return on investment via an increase in stock value.

5.1.7 Corporations do not like conditions on repatriated funds

Most corporations lamented at the “strings attached” to returning capital to America under HIA-1. Firms argue that there are a number of ways to measure the success of repatriation and job creation. They state that paying dividends to shareholders is actually a way to boost the economy because it will lead to tax revenue for the government on those dividends as well as giving investors access to more capital for further investment in small businesses or for expanded purchasing power.

5.1.8 Repatriation holiday would strengthen the American dollar and nullify any effects of cash returning to the United States

The rise in the price of the dollar would nullify the repatriated funds as foreign currencies were converted to dollars to bring the money back into the United States and result in a decline in U.S. exports because it will make “buying American” more expensive to foreign countries and also impact tourism since the exchange rate would make converting foreign currency to U.S. dollars a lot less attractive to would be tourists.

5.1.9 Repatriation holidays increase the national debt

Repatriation is seen to have a negative impact on government revenues in both the short-term and long-term. The perspective is that massive amounts of funds will flow into America during the year of the repatriation holiday, when the tax rate has been

reduced, but slow down again after the rate returns to its previous level. Therefore, in the case of a tax rate reduced from 35% to 5.25%, the U.S. government loses 30 cents per dollar. Under a scenario of repatriating \$1 trillion, the \$1 trillion repatriated would equal \$52.5 billion to U.S. Treasury under the holiday rate versus \$350 billion under the standard rate for an immediate loss of \$297.5 billion to the government that must be eaten by taxpayers through the national debt. Though a cost-benefit analysis is not this straight forward and therefore other factors would be taken into consideration regarding investment and growth, the notion is that even if the loss is not really \$300 billion, it is large. The Joint Committee on Taxation, the nonpartisan Congressional office, estimated that the lost in tax revenue from HIA-1 was \$79 billion over 10 years¹⁹⁹ – a similar figure is estimated for a possible HIA-2. In the long-term, the idea is that corporations would shift as many funds as possible offshore to take advantage of future repatriation holidays, which result in a loss of domestic tax revenue to the U.S. government.

5.2 Subset Issues

- *Housing*

Though I chose not to devote an entire section to the U.S. housing crisis, it was not done so to suggest that it could be overlooked as it relates to America's future. This inclusion under the heading of "Subset Issues" is intended to make the direct connection between the U.S. housing crisis and any prosperous economic future that America expects to experience.

2010 census figures show that U.S. homeownership has seen its biggest fall since the Great Depression. From 2000 to 2010, homeownership dropped from 66.2% to 65.1%

nationwide.²⁰⁰ Only the homeownership drop in 1940 of 4.2% down to 43.6% was greater. However, it is worth noting that nearly all of this decline came in the second half of the 2000s since at mid-decade the U.S. was at a record high of almost 70% of household ownership. Since 2000, 41 states saw declines in homeownership including the South and West, where foreclosures were most common.²⁰¹ South Carolina, Alabama, Florida, Mississippi, and my own North Carolina led the way.²⁰² With a diminishing role of government mortgage buyers like Fannie Mae and Freddie Mac, tighter credit from banks, potential federal tax reform related to mortgage-related deductions, and extended job losses, few believe that homeownership in America will ever reach that high again. As unemployed young adults return home to live with their parents, they are delaying homeownership indefinitely; while adults ages 35-64 are losing their homes by declaring bankruptcy or experiencing foreclosure.²⁰³ Furthermore, as it relates to those who are concerned about equity, when calculated by race, the recent housing problems have erased 40 years of housing gains between whites and blacks, returning the gap to its widest level since 1960.²⁰⁴ Millions of other Americans are rendered “occupationally paralyzed.” That means that they may owe more for their homes than they are worth and therefore cannot sell them to move elsewhere to take a job where their skills and experience might fit. Some economists expect housing values to remain depressed for, at least, another four or five years.²⁰⁵

It should be noted that the rise of U.S. homeownership cannot be separated from the historic prosperity of our country. Some would make the argument that the suburbanization of our nation freed Americans of the plight of urban living, which was not always as enjoyable as it is in the 21st century. Urban dwelling in the late 19th century

and early 20th century was rife with overcrowding, unsanitary conditions, and deep malaise. Others would make the argument that it was the very suburbanization of our country that has led to many of the challenges that we face related to global warming, air quality, and environmental degradation. It is certainly true that communities have long detached where people live from where they work and from where they shop and seek entertainment. This has undoubtedly added much to the vehicle miles we travel.

However, what is also undeniable is that the growth of the suburbs greatly enhanced the quality of life for many Americans. It reintroduced people who had converted from an agrarian society to an industrial society back to fresh air, open space, and just as important, reintroduced them to ownership. Beyond that, homeownership gave citizens an asset to individually leverage towards things such as higher education for themselves and their family, the starting of small businesses, both large and small consumer purchases, and investments. That individual leveraging of homeownership allowed America to collectively leverage these assets towards innovation, economic growth and prosperity. The decline in both homeownership and home values threaten the future of all the previously stated areas – education, investment, consumer purchases, and business creation. Those are all things that made America the envy of the world and the model for all to follow. Consequently, any complete discussion of how America will fully recover and “get its groove back” will have to include solutions that also bolster the housing market.

6 Discussion and Conclusions

6.1 Major Findings

In the research associated with the question of designing current policy to connect repatriated funds, energy investment and sustainable community development, I discovered what I consider three major findings:

- **Shortcomings of Homeland Investment Act of 2004 Were Significant But Are Not Impossible to Overcome**

The many shortcomings of HIA-1 have been well documented and thoroughly expressed (see 5.1.1-5.1.9) and most stakeholders have had an opportunity to offer their opinions on the legislation. I believe with much thoughtfulness each of those issues from the first Act can be corrected to address the underlying concerns and to avoid a repeat of those shortcomings.

- **Simultaneous Growth of the Global Middle Class and Associated Growth of the U.S. Multinational Corporation Will Only Exacerbate the Repatriation Problem for Years to Come and Threaten U.S. Competitiveness if Not Addressed**

The trends that have led to this current debate about repatriation of foreign profits are growing and not contracting. As the global middle class continues to expand, leading more citizens around the world to have disposable income and desires for “American like” lives, American-founded-and-based firms will go after those markets and profit from them. This means they will continue to expand their cash holdings overseas and based on the sheer size of the foreign market versus the U.S market, foreign profits will likely forever trump domestic profits – even without creative accounting maneuvers of crafty firms. In short,

this issue is not going to disappear, even if another Repatriation Act is passed.

Therefore, it is in the best interest of America, as a whole, to discern how we turn this “problem” of growing foreign profits into an “opportunity” that benefits U.S. citizens, government and corporations alike in the long-run, else we all lose.

- **Current Differences on Repatriation Tax Policy Between U.S. Corporations and U.S. Government Are Significant But Are Not Insurmountable**

There is no disputing the differences of opinion between U.S. corporations and the U.S. government on issues associated with tax abatement on repatriated foreign profits. However, I believe that with some creativity, all parties could find something about a policy bill that they could like (and undoubtedly dislike), that would benefit the American public through the return of foreign funds to the U.S. Even in what is considered an unprecedented time of divisiveness and partisanship in our country, there is always a chance for compromise for the greater good.

6.2 Significance of the Findings

The findings of this MP are significant because they present the U.S. with both a daunting challenge but also an incredible opportunity. As of July 2011, American corporations hold more than \$1.2 trillion in overseas accounts. In a situation like this, one is reminded of the term, “Be Careful What You Wish For!” America built this globalized world supported by Democratic Capitalism and now fights to continue its leadership in it.

Assuming these findings hold true, a solution to the Repatriation Dilemma can be achieved in a way that allows not only major corporations and the U.S. Government to win, but most importantly, allow the American economy and its citizens to win. A policy solution that

connected repatriation to a reduced tax rate in exchange for investment into sustainable community and energy investment, with a particular focus on rural and low-wealth communities, would provide a basis for growth of American jobs and competitiveness. In this scenario, as the coffers of American companies expanded with their foreign markets, so would the investment in communities and jobs back home. Even more significant, is that such an investment as this, could not only reinvigorate America, but also create a higher than expected return on investment to corporations who participate.

6.2.1 Linking American Job Expansion to Global Economic Growth

America has both benefited from and been harmed by globalization. For much of the 20th Century, the growth of foreign markets allowed American companies to grow their bottom lines. As foreign citizens desired to live like Americans, corporations happily provided them with the goods and services that achieved that end. As a reflection of the battle between America's democratic capitalism and the Soviet Union's state controlled communism, this growth of the American ideal suited us well. We bombed countries and we built them back. Furthermore, we invested in the education of foreign citizens because a hallmark of democratic capitalism is an educated populace. Meanwhile, U.S. corporations were expanding jobs back home and the American middle class was exploding.

The 21st Century has seen a different phenomenon. The foreign citizens that America helped to educate, or whom benefitted from the education investments of their countries, eventually became educated enough to do many jobs that once belonged to Americans. A perfect storm of cheap foreign labor, globalization of the financial system, relatively cheap oil prices, and logistical efficiency allowed many products once made by American workers to be made by

foreign workers. This shift has led to a foreign population that is swelling the global middle class. Therefore, the global market for American goods once dreamed of is a growing reality.

The manufacturing of goods, at one point thought to be the extent of what could be globalized, has seen the service sector join its ranks. An architectural rendering can be done by a worker making \$15,000 a year in India just as easy as it can be done by a worker making \$45,000 a year in Raleigh, North Carolina. Technology has rendered distance largely obsolete.

The corporate philosophy of profit maximization, once thought of as the friend of the American economy, is a contributor to the idea that a business should overlook all else in pursuit of profit. Therefore, an American company that chooses to switch out a more expansive domestic workforce for a less expensive workforce and then chooses not to repatriate funds domestically because of the tax rate is acting as it was designed. After all, that is what the market rewards them on.

It is not hard to imagine that same corporation pursuing the growing global market for its product. In order to intelligently move into a new foreign market, this corporation might decide to add foreign individuals to its corporate board, since that individual might offer advisement or contacts in that market. Furthermore, a corporation seeking that expansion might decide to hire any number of talented foreign-born CEOs to lead the firm into new territory. It is not too much of a stretch to imagine a company, once an American staple, with a foreign-born CEO, majority foreign board, majority of its expected market growth internationally, and a more favorable tax system internationally perhaps voting to shut down its operations in America and re-establishing its headquarters in another country. Companies do this type of movement domestically all of the time. For those who might think that such a company would not find such a move in its best

interest because of the backlash from American consumers might want to think again. First of all, the world is much bigger than America and theoretically, even if every American consumer stopped buying that company's product, the global revenues might easily make up the difference. Secondly, one must ask the question of how many American consumers currently relate their favorite products or goods to a specific geography: Dearborn Ford; Carolina Pepsi; Seattle Microsoft. Not many. This is particularly true of young consumers who have always lived in a world without boundaries. A choice driven by price or quality is likely to be more relevant filters. How many consumers do we imagine could identify what city the corporation that manufactures their products is located?

This policy does not guarantee that such a scenario won't happen in the future, but it would link expansion of foreign profits to economic investment in America. The invested capital returned would be able to help spur the innovative small business development that America is known for with a focus on the energy market ensuring those new firms would have a global marketplace.

6.2.2 Investments in U.S. Community-Based Energy Innovation

The significance of these findings are that if they hold true then the resulting policy would create a significant source of investment capital for local governments to invest in energy upgrades, energy efficiency and renewable energy. The American Recovery and Reinvestment Act of 2009 provided a significant amount of capital for energy investment at the local government level. Many of those communities had never imagined the amounts of capital available to them for energy projects when the Stimulus funds were distributed. The learning curve for many communities and those communities' leaders was steep. It was the expectation that the Stimulus investment would spur private sector capital to the energy space. However, now in 2011, two

years after the ARRA, as the funds are set to expire, communities are much more versed and interested in energy projects, but private capital for the sector has stayed largely on the sidelines. With public money scarce for the foreseeable future, and private sector capital not stepping forward, it is unclear where the capital to invest in the American green economy is going to come from. This policy would seek to create a vehicle for connecting a potential long-term source of investment capital to the American green economy and sustainable community development.

6.2.3 Long-term Capital Access for Rural America Upgrade

This paper began by asking questions related to the future of sustainable community and economic development and investment. It asked specifically about where small towns would find capital for growth and competitiveness in the 21st century economy. If these findings hold true and innovative policy can be implemented, it is significant because of the potential to invest in some of America's most challenging communities without increasing long-term American indebtedness. One of our greatest struggles in North Carolina is in finding substantial, long-term and patient capital to invest in rural communities, which make up 85% of the state. This is not a North Carolina, or Southern challenge, but one that is faced by many states around the country. In this current economic environment, finding access to flexible capital via repatriated dollars that can be leveraged with federal funds to drive rural development, growth and competitiveness, is significant to those individual communities and the country as a whole.

6.3 Relationship to Similar Studies

Previous work of others – particularly “*Tax Exemption for Repatriated Foreign Earning: Proposals and Analysis*” [David Brumbaugh, Congressional Research Service, April 27, 2006],

“Tax Savings on Repatriations of Foreign Earnings Under the Jobs Act” [Susan Albring, Ann Dzurarin, and Lillian Mills, Tax Analysts Special Report, December 2005], and *“Repatriation Measures Unlikely to Stimulate the U.S. Economy or Boost U.S. Investment – But Will Promote Investment in Tax Havens and Undermine the Corporate Income Tax”* [Aviva Aron-Dine, Center for Budget Priorities, January 30, 2008] – all influenced my Masters Project greatly by thoroughly examining the shortcomings of the 2004 Homeland Investment Act. That previous scholarship laid the foundation for identifying what characteristics would be required in order to create a stronger policy solution seven years after the first attempt at utilizing repatriation tax policy as a means of job creation.

The primary difference between the work of this Project and prior studies is that prior studies focused solely on an analysis of whether the HIA-1 achieved its stated goals or not and the associated reasoning. In the literature I reviewed I found no analysis of HIA-1 that stated that it was successful towards its stated goal of creating American jobs. This is not to say that none exists, simply that in my initial searches I found none. However, all studies did consider HIA-1 a success in incenting U.S. corporations to repatriate funds. Though I found plenty of literature and analysis on what the shortcomings of HIA-1 were, I came across no body of work that focused on seeking ways to overcome those shortcomings of the original legislation in the present economic environment. In addition, I found no body of work that sought to connect U.S. foreign profits with the U.S. energy investment and sustainable community economic development sectors.

It can be noted that there are currently a number of legislative proposals supporting a second repatriation holiday including the Foreign Earnings Reinvestment Act, the Senator Kay Hagan (D-NC) and Senator John McCain (R-AZ) bill proposed in October 2011 and referenced earlier

in this document. The debates are centered around the projected impact of such a repatriation holiday again and whether that activity would be a positive or a negative for the U.S. government. Recent studies have made claims to support both sides – with some stating that a repatriation holiday would reduce future deficits while others say it will increase it.

6.4 Possible Alternative Explanation of Findings

Though the major findings of this MP tie into my desired bias of being able to find a compromise with all interested parties, I admit that might not be the case. It is possible that there are other elements at play that would keep corporations from repatriating funds or that keeps the federal government from reducing the repatriation tax rate again beyond the reasons that seem most obvious. The major findings of this Project assume that all parties have a vested interest in finding a compromise in the repatriation debate. For example, political considerations could play a superior role in determining support or non-support for this type of proposed legislation. The current Administration, having already been accused of pandering and caving into the opposition, may simply see any act that reduces corporate taxes on foreign income of multibillion companies as being political suicide, though they have said they are willing to consider it within the context of a tax overhaul. Other politicians or pundits may find repatriation similarly, or political compromise, unattractive under any circumstance. In that sense, the findings that lay the basis of this Project could be incorrect. Each side might not be looking for a reason to compromise which would impact the ability to craft any policy that was sufficient or politically possible.

6.5 Limitations of Study Design

The limitations of this study have been touched on earlier in the report. Though I feel strongly in the merit of this MP, it does have limitations. They are as follows:

6.5.1 Lack of Significant Stakeholder Feedback

As stated earlier in the report, it was clear even before the Project began that neither individuals representing corporate America nor individuals representing the federal government wanted to go on record as being a part of any policy proposal that did not fall in line with their side's public position. This limited my ability to do any means testing on the proposed policy solution that would allow for adjustments prior to final design. Being able to do surveys, or focus groups, would have offered a lot of valuable information in this process.

6.5.2 Assumption of Ready Green Entrepreneurs and Intermediaries

There is a built-in assumption in this study that if this policy was implemented that there would be enough green investment intermediaries and enough green entrepreneurs in the U.S. private sector to accept the associated capital and that finding great investments that can create jobs would not be a problem. However, this MP spent little time quantifying that notion.

6.5.3 Focus on a Singular Repatriation Solution

This Project decided to focus on only one policy recommendation related to repatriation of foreign profits. I realize that a HIA-2 may not be a silver bullet and that there are likely other policy solutions that could be added as a part of a toolbox of strategies for repatriation to create jobs.

6.5.4 Limited Cost-Benefit Analysis

Though this Project includes as part of the Appendices several cost-benefit analyses, it did not spend significant time on executing an expanded mathematical cost-benefit analysis of the proposal. It instead focused on the original Homeland Investment Act parameters which identified “jobs and R&D investments” as the primary tenants, but without setting a specific target. I identified estimates for job creation at certain levels of investment while taking into account loss tax revenue for the federal government. A more rigorous analysis would include an expanded cost-benefit analysis with a broader economic impact analysis. Since this is a Project focused on “sustainable development,” any sufficient expanded analysis would have to include the short-and-long-term impact on not only the economic indicators deemed important, but also on environmental and social indicators deemed important as well. There is a built-in assumption that there are net social and environmental benefits associated with this proposal since it is recommending large-scale investment in renewable energy and energy efficiency, and creating jobs in a down economy. An expanded cost-benefit analysis that estimates the social, economic and environmental benefits compared to the relevant costs would give a more accurate picture.

6.6 Suggestions for Further Research

This study’s limitations have been identified in the previous section and any of those areas could be suggestions for further research. Because of those limitations, this MP does not suggest that the proposed legislation be implemented as a permanent tax code change. This policy must be tested to measure its effectiveness at not only the stated goals outlined as part of The Big Four Criteria (Competitive, Job Creator, Capital for Energy, Non-partisan), but also at overcoming the shortcomings of HIA-1. Thus far the study has only been modeled. It remains unanswered as to

whether this would actually lead to measurable direct job growth in the green economy.

Therefore, the model needs to be tested. In addition, the question remains as to its viability of moving forward in the current high-stakes multi-partisan environment, even if it can work as advertised. With an election year on the horizon, compromise seems to be in short supply.

I feel like this study is only the tip of the iceberg in terms of what the possibilities are for creatively leveraging repatriated funds for sustainable community development and job creation in the U.S. I think there is an opportunity for further research on how “credits” could be accumulated that corporations could use to repatriate dollars beyond the “credits” attached to the idea of a Sustainable Community Energy Bond.

Some suggested further research is as followed:

6.6.1 CDBG-S: Community Development Block Grant – Sustainability Policy

I think there is an opportunity to explore what federal policy might look like that integrates Sustainable Development principles into the federal Community Development Block Program, which invests funds into low-moderate income communities around the United States. In this scenario, the federal government might utilize a formula for issuing state-by-state allocations of “repatriation credits” similar to how states are awarded Block Grant funds now. Those credits could be leveraged to create capital investment funds or issue qualified sustainability bonds. Local governments would put forth projects that would qualify as investments. The state Community Development program would manage the annual allocation and issue them to the private sector partners and ensure that all projects undertaken were qualified projects. States would certify credits which would align with investments

from the Repatriation Funds. The U.S. Housing and Urban Development agency would manage the program at the federal level. The bond(s) would have a fee of up to 3%, similar to the CDBG program, and be split among the private sector partner and public sector partner(s) to cover administrative costs. Each state would have to produce and submit a five-year action plan with annual goals to HUD (a SIP – State Implementation Plan) identifying how the state would achieve sustainable development. This program would create tradable and bankable credits identified as Class I Credits (i.e. investment funds, renewable energy, sustainable infrastructure and community development investment), Class II Credits (i.e. energy-efficiency housing associated investment), Class III Credits (i.e. purchasing sustainable products, etc) and so on. A number of questions would have to be answered to make this a viable and effective policy, among them, how is the overall credit amount set (is there an associated equation based on anticipated international profits) and what is the exchange rate of credits to dollars?

6.6.2 Opportunities to Support Other National Priorities with Repatriation Bonds

This Masters Project focuses specifically on supporting the notion of Sustainable Community Development which aligns with the federal Sustainable Communities Initiative launched in 2009 between federal partners HUD-EPA-and-DOT. There are a number of other initiatives at the federal level such as EDA's Regional Clusters Initiative, HUD's Smart Cities, U.S. Commerce's StartUp America, or SBA's Impact Investing Small Business Investment Company (SBIC), and Domestic Policy's Social Impact Bonds. Another opportunity could be to support the Department of Defense's effort to conserve land around military bases while also developing communities

where soldiers are interested in living and raising families. Another initiative related to the military could be to support temporary and permanent housing for homeless Veterans. I believe any number of federal level initiatives could be supported through repatriation bonding strategies.

6.6.3 Secondary Market for Repatriation Bonds

If Repatriation Bonds are to have a future as a financial instrument, having a secondary market, to make them more liquid (or easier to buy and sell) for their owners, will be crucial. A secondary market is a financial market where previously issues securities like bonds are bought and sold. An investor who buys a bond may not want to hold that bond to maturity; whereas another investor may want to buy a financial instrument that is closer to maturity. A secondary market would allow those buyers and sellers to connect.

6.6.4 Market for Tradable and Bankable Repatriation Credits

This would also be a critical aspect of a viable marketplace for repatriation credits. Depending on how the market was structured, organizations might have a desire to buy or trade credits at flexible times to utilize for themselves, resell them or “bank” them for future use. Because these are credits generated from sustainable activity, over time they should collectively address issues of social, environmental, and economic importance.

6.6.5 Explore Ways to Utilize Repatriation Credits Towards Helping Housing to Rebound

As I mentioned earlier in this document, the U.S. housing market will have to make a serious rebound if the American economy is to see its full potential. Identifying an

innovative way to utilize houses to generate “repatriation credits” that could be sold on an open market would have tremendous benefit. The credits attached to the housing sector could be separated from the credits generated from the Sustainable Community Energy Bond. The Bond would be identified as a Class I Credit, whereas the housing credits might be referred to as Class II Credits. For those who are counting, U.S. housing also accounts for 22% of carbon emissions in America when the consumption of electricity is included in the equation, trailing only the industrial and transportation sectors.²⁰⁶ I believe there are tremendous opportunities for using repatriated funds to support the strengthening of the U.S. housing market while addressing environmental concerns, but more research is needed.

6.6.6 Explore Foundation Investment Credits

American-based nonprofit grant making foundations hold billions of dollars in capital. Those dollars are held in two different buckets. One bucket of capital is what those foundations are required to give away to nonprofit organizations or for other charitable purposes each year by federal IRS law. That total is equal to 5% of the foundation’s endowment on an annual basis. The second bucket of capital is the actual endowment which is much larger than the annual granting pool. A number of foundations have explored ways of utilizing, not only their annual grant making pool, but also their endowment corpuses to make an impact. These attempts at aligning the way they do their endowment investing/grant making is often classified as Program-Related Investments (PRIs) or Mission-Related Investments (MRIs). The F.B. Heron Foundation of New York City and the Babcock Foundation of Winston-Salem, North Carolina continue to be two leaders in that effort. Yet, more and more foundations

are beginning to see both the logic and value in aligning how they grow their endowments with how they issue their grants, as to insure that the two are not competing. However, current tax policy still makes it challenging to do so.

I think that further research could focus on how major foundations might invest in the type of “social impact instruments” that I have discussed in this paper, not just from their 5% grant making funds, but also from the other 95% which constitutes their endowments. Though there are a few foundations like the Bill and Melinda Gates Foundation of Seattle, Washington, who have explored ways to wind down their foundations within several generations of the founders’ deaths, most foundations are established to last perpetually. Since foundations are required to give away a twentieth of their endowments annually, if they expect to remain in business “forever” they have to seek investment returns that at least match the cost of that annual allocation plus any administrative overhead that is associated with it.

I believe with the right structure there is an opportunity to leverage the endowment capital of the major foundations to drive sustainable community development and job creation – areas that if successful would positively impact their missions. There are a couple of ways that an effort like this could be explored. A foundation could be given a “credit” against their investment in a Sustainable Community Energy Bond, or other Social Impact Investment Vehicles, that would allow them to reduce the annual amount they are required to grant if they lost money in the investment that would allow them to protect their endowments. This would be similar to the

suggestion I recommend for how to protect the downside of these Bond instruments for corporations (giving them credits against future repatriation if the investment fails to return their principal plus interest). Instead, it would allow foundations to reduce their annual grant making if the Bond instrument fails to return their principal plus interest. Obviously, as economists would say, there is no such thing as a free lunch, so this plan comes with associated costs – though I think they are minimal. One argument would be that this proposal has the prospect of decreasing the amount of funds that are available to worthy nonprofits doing great work in the future if the “investment” in the Bond goes bad. However, if the Bond is structured correctly then it should focus on supporting the mission of the foundation towards the work it would be supporting anyway – just in a different context.

The cost-benefit analysis in this situation would focus on whether a dollar today is worth as much as a dollar one year or ten years from now? In other words, what is the value of investing \$100 million into a problem today to try and address an issue versus investing \$10 million a year for 10 years? Is the problem more expensive the longer we wait or vice versa (i.e. could making a bigger investment today save resources in the future?). A policy that looked at this suggestion would expand the pool of available capital for the types of sustainable community development and impact investing discussed in this paper.

6.6.7 Cost-Benefit Analysis of Repatriation Bond Proposals

I addressed this shortcoming earlier in my Masters Project. An expanded cost-benefit analysis was well beyond the scope of this paper. Therefore, this area of further

research must address that. Because there are a number of factors trying to be achieved simultaneously, it is expected that the same type of Cost-Benefit Analysis generally associated with environmental type policies might be warranted, but there also might be a need to create unique analysis tools that simultaneously incorporates social, environmental, and economic factors.

6.7 Recommendations

I mentioned early in this document that my decision to take on this topic in late 2010 as my Masters Project turned out to be one of the greatest strokes of luck I could have ever imagined. When I stumbled upon this topic on a cross country airplane trip, as I caught up on my reading, it was through a small column no more than a few paragraphs long. Since then the topic has exploded, particularly as 2011 has progressed. This has given me rich amounts of data and articles to explore. It also allowed me to share my ideas with many influential parties. Since forwarding my requested memo to the White House in summer 2011, I have been asked by several Congressional offices to also share it with them, in addition to some leaders from major corporations engulfed in the middle of this battle. That is why I know there is common ground in more places than can be imagined. Individually folks seem willing to consider compromise, while they stand their ground collectively.

I did not contribute any input to the October 2011 Hagan-McCain repatriation bill currently proposed in Washington, DC. However, since the Foreign Earnings Reinvestment Act of 2011 (see **Appendix A-1: Bill 1-pager** and **Appendix A-2: actual Bill**) came out – literally – as I was typing the final draft of this document, it would be remiss of me not to address the elements of that bill in some way. In addition, I found great value in several elements of the Hagan-McCain bill.

The first valuable element of the Hagan-McCain bill is that it is an *actual* “bill.” Part of my original recommendation to legislators was to draft a bill related to repatriation. I believe the Hagan-McCain bill is a good start. Secondly, the “payroll elements” of the bill are actually quite interesting in how they attempt to keep the repatriators from laying off staff after bringing capital into the U.S. as well as rewarding those who add staff. Therefore, I will use the recent Hagan-McCain bill as the basis of my first recommendation – but with some amendments.

6.7.1 *SHORT-TERM: Congress should pass, and the President should sign into law, a Homeland Investment Act 2 with restrictions, including provisions piloting the “Repatriation Bonds” concept*

I recommend that our political leaders pass legislation that allows American-based corporations with profits abroad to bring those funds back to the U.S. at reduced rates, but with restrictions. It is obviously very clear that corporations do not like “strings” attached to repatriated funds. HIA-1 had a tremendous amount of restrictions attached to it related to what profit years could be repatriated, how much of those funds could be repatriated, and what those repatriated funds could and could not be spent on. Nevertheless, most everyone has now agreed that corporations were creative in how they complied with those restrictions. I am recommending the passage of an Act that includes restrictions; however, those restrictions would be different than during 2004.

Generally speaking, if Congress aimed to pass a Repatriation Act that simply attached payroll provisions – such as those in Hagan-McCain – with an associated rate, I would put several restrictions on the repatriation bill. Those restrictions would include making it a temporary one year provision, which is consistent with the original tax holiday in 2004. If the purpose of this Act is to connect repatriated dollars from abroad with jobs onshore, a year’s time should be

sufficient to measure impact of companies who bring funds home. In that year’s time, they will either create jobs or they won’t. If jobs are created then Congress and the President should not have a problem with extending it again once it expires for another year – or perhaps a bit longer. But per the issue related to a “temporary” Act versus a “permanent” one, I would recommend that any policy of this kind be associated with temporary legislation else companies would not have an incentive to quickly bring the funds back home. I would also restrict the amount of funds that companies could bring onshore at the lower rate during that first year. Again this would test out the job creation theory. If companies are allowed to return as many funds as they want during that one year tax holiday, then a threat of having it disappear wouldn’t matter. If they are severely limited regarding the amount of funds they can bring home – say a certain percentage of the qualified total – then it will allow the U.S. government to discern what the job creation impact is. If every company that had profits overseas were restricted to 10% of the qualified total, presuming all \$1.2 trillion was qualified, that would mean \$120 billion could be repatriated. If that does not seem like a sufficient amount of funds to create jobs, to put it in context, in 1999 at the height of the dot-com bubble, roughly \$100 billion was invested in technology companies. Unemployment in 1998 began at 4.6% in January before dropping to 4.4% by December. By December 1999 that rate had dropped to 4% before dipping down to under 4% for the only time this century during 2000.²⁰⁷

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
1998	4.6	4.6	4.7	4.3	4.4	4.5	4.5	4.5	4.6	4.5	4.4	4.4	
1999	4.3	4.4	4.2	4.3	4.2	4.3	4.3	4.2	4.2	4.1	4.1	4.0	
2000	4.0	4.1	4.0	3.8	4.0	4.0	4.0	4.1	3.9	3.9	3.9	3.9	

<http://data.bls.gov/pdq/SurveyOutputServlet>

There were certainly other factors in the run-up to 2000 and the low unemployment rate (i.e. Y2K^{xi}). However, many feel that energy-efficiency technologies with the right incentives could also drive a rise in job creation.

Based on this MP, it is obvious that I would recommend a plan that focuses on including a provision in any repatriation bill that required firms to invest in an “impact investment” instrument to receive credits to repatriate dollars (i.e. Class I Credits). For example, for each dollar a firm invests in a qualified fund, they might get \$10 worth of repatriation credits. A firm investing \$100 million in a fund would receive \$1 billion worth of Class I Credits that would allow them to repatriate that amount of funds at a reduced rate – perhaps 5.25% or 4.75% or some other rate.

As my short-term *Recommendation* I would suggest amending the Hagan-McCain bill in the following ways:

- 1) Put a limit on the amount of funds allowed to be repatriated during this one year period per my earlier reasoning. If job creation is the primary driver of this bill then a year should be sufficient to see if corporations expand their payrolls with whatever money they return to the U.S. If they do not expand with the funds they bring over with this HIA-2, then the theory of immediate job creation would have failed and then the debate must return to the question of whether corporations should be allowed to return those funds at a rate of less than 35% if job creation is not the result.

^{xi} Leading up to the Year 2000, there was widespread concern that at midnight of the new year, all computers would reset to “1900” and crash systems worldwide. This was known as Y2K. Massive amounts of capital were invested by firms to ensure their systems would not crash.

- 2) Add the “Repatriation Bond” provision suggested in this paper as a Third-Tier option of repatriation. This provision could allow for the garnering of Class I Repatriation Credits for those corporations wishing to invest in the Bonds. The ratio could be 1-to-10 (every \$1 invested in Bonds would generate a \$10 Repatriation Credit). The minimum length of such Bonds would be 10 years but could extend beyond that. The Bonds language should include the provision that allows corporations at the end of the Bond life cycle who fail to get their principal and agreed upon interest (P+I) payment back to generate Repatriation Credits to return capital in the amount of the difference between (P+I) and the actual capital returned (up to 100%).
- 3) Since corporations are getting an associated tax break down from 35% for these funds, I would recommend that the Interest (I) on those Bonds be limited through some association with U.S. Treasury Bill rates or LIBOR during the life of the Bond.
- 4) The associated tax rate on funds repatriated under this provision would be 4.75% for the repatriated amount retained by the corporation and 0% for the repatriated amount used to purchase the Repatriation Bonds.
- 5) Though there would be limits on the amount of funds that can be returned under the 8.75% and 5.25% tax rates, there would be no limit to the amount of capital that can be repatriated under the 4.75% scenario.
- 6) I would also recommend that the same penalties related to payroll remain intact. Thus, if a firm triggers a rate higher than 8.75% based on the payroll provision, that would also pertain to all the capital repatriated under the 4.75% rate.

- 7) Require the Repatriation Bond to be managed by a professional and qualified third-party investment manager but with oversight at the state level through the HUD affiliated organization.
- 8) I would change the name from the Foreign Earnings Reinvestment Act to the Homeland Investment Act 2.

The following is a brief description of how my proposed Homeland Investment Act 2 would satisfy the requirements of The Big Four Policy Criteria and address the nine (9) shortcomings of the first repatriation legislation (Homeland Investment Act of 2004) outlined in Sections 5.1.1 to 5.1.9 of this MP as well as the recently proposed Foreign Earnings Reinvestment Act of 2011:

Satisfying The Big Four Criteria

- i. Does this policy have the potential to make the United States more economically competitive in both the short- and long-term?*

Yes. This short-term recommendation can offer a vehicle for immediate job creation which will enhance the financial condition of the United States through increased tax revenue and decreased spending on social safety net programs. Furthermore, it has the potential to provide an ongoing and sustainable source of capital to invest in the green economy which will make America more competitive globally as that market continues to grow. Beyond that, it will help the U.S. get its groove back. America is still the most innovative place on earth and finding a way to allow the U.S. to benefit as the global economy grows is critical to our short- and long-term competitiveness. To a certain level, as globalization has expanded over the last three decades, the U.S. has suffered. This policy could be a step in the right direction of making a beneficial connection between America and globalization.

ii. Does this policy have the potential to create jobs for the large number of unemployed citizens in the United States?

Yes. Appendix C of this MP calculates that if half of the international profits from corporations (roughly \$600 billion) were to be repatriated under this HIA-2 proposal, that nearly 1 million jobs could be created within the first two years after repatriation. This clearly does not solve all of America's employment problems, but it is a start.

iii. Does this policy have the potential to power the innovative energy economy through investment capital?

Yes. This proposal is built around clean energy investments such as renewable energy and energy-efficiency. Furthermore, it puts the investment capital into the hands of the private sector. This should address the criticism that the government is picking winners in the free market. It does identify the need to have the state play a role insisting an investment is qualified, but otherwise leaves it to the private sector to find the best opportunities.

iv. Does this policy have the potential to overcome the highly divisive and multi-partisan nature of the many stakeholders who would have to weigh-in to this policy including political leaders, corporate leaders, and individual citizens?

Yes. As I stated in the July 1, 2011 Memo that I sent to the White House, I believe there is much in this proposal to satisfy a diverse group of stakeholders: Corporate leaders get tax relief that has the potential to be as low as 4.32% and a guaranteed return with investment in an instrument that they are used to investing in already – bonds; political leaders from the Democratic side gets capital invested in socially and environmentally responsible projects that enhance the quality of life for communities all around the U.S.; political leaders from the Republican side get reduced

corporate taxes and a policy that allows the private sector to chose where investments are made; political leaders most concerned with the federal debt gets a proposal that allows for these investments without borrowing money to drive it; and individual citizens get jobs and opportunity, investments in rebuilding the infrastructure of America, no added federal debt, and a political system that can still find ways to compromise.

YES. THIS POLICY SATISFIES EACH OF THE BIG FOUR CRITERIA

Overcoming the Shortcomings of Homeland Investment Act 1

5.1.1 Money is Fungible

This would be a non-issue under HIA-2. Since the “Repatriation Bond” is a new concept, it is not something that would have been invested in under normal circumstances. Some might argue that this might purge investment capital from other kinds of financial instruments or it might reward companies that were already investing in these areas, however since the goal is to get more capital into the green economy, the U.S. should want to incent that activity. Since corporations could otherwise use their repatriated capital for any reason they want, there would be no reason for them to play a shell game with their capital.

5.1.2 Temporary tax holiday is better than a permanent tax break to drive capital repatriation

HIA-2 is recommended as a temporary tax holiday, which should drive the repatriation of capital since there would be a time-limit on the opportunity.

5.1.3 A second tax holiday would be disastrous

A second tax holiday would be disastrous if it had the same or less requirements than HIA-1. However, if the second iteration of the tax holiday is changed to seek better outcomes, it demonstrates that the U.S. is serious about holding the Act to its stated standards. I would not consider HIA-2 a second tax holiday, but instead another attempt to link repatriation to U.S. job creation.

5.1.4 Repatriated funds more likely to go to stock buybacks and executive compensation (not new investment in new Jobs and Research & Development)

Under HIA-2, this type of capital utilization is fine. The Repatriation Bond will invest in job creating activities “on behalf” of the repatriated dollars. One dollar for every ten dollars returned to the U.S. would be used to drive green economy job growth.

5.1.5 Repatriation only benefit large corporations

This would not be the case under HIA-2. Because of the way the Repatriation Bond is structured it would be the small businesses and entrepreneurs who benefit greatly from this legislation by having access to investment and growth capital. In addition, local units of governments and communities would also benefit because the projects financed would strengthen those communities. This will ensure that large corporations are not the only beneficiaries of repatriation.

5.1.6 Repatriation is driven more by needs and availability of other opportunities than by repatriation tax rates

This is likely to continue to be true regardless of what legislation is in place. However, currently there is a great interest in repatriating dollars. The U.S. should take advantage of that.

Furthermore, if the U.S. makes it more advantageous to invest in Repatriation Bonds than in international opportunities, corporations might direct more investment towards them.

5.1.7 Corporations do not like conditions on repatriated funds

It is obvious that any legislation that is passed regarding repatriation will have conditions attached to them. HIA-1 had restrictions on how the repatriated money could be invested; FERA has the payroll expansion and contraction conditions attached to it; the proposed HIA-2 would capture the payroll conditions of FERA but also add the restrictions regarding allowable repatriation amount and the Repatriation Bond component. However, this should actually benefit the corporations. It does come with “strings” but the corporations greatly benefit from those strings because not only are they off the hook for direct job creation, but they also get a guaranteed return via the condition that allows them to recapture their principal and promised interest through future repatriation tax reduction if the Repatriation Bond does not pay out in full.

5.1.8 Repatriation holiday would strengthen the American dollar and nullify any effects of cash returning to the United States

A number of corporate treasurers have indicated that their international capital is already converted to dollars and therefore, there would be no negative effects for repatriation.

Additionally, the U.S. job creation could offset any impacts from the strengthening of the dollar.

5.1.9 Repatriation holidays increase the national debt

This is likely to be an ongoing debate. Corporations insist that they will never repatriate large sums of money at the current rate which means that any loss tax revenue calculated by the federal government is only a theoretical loss. As an opportunity cost it seems like an incredible amount to forego. However, if the U.S. can recapture cash that it would otherwise not receive with associated tax rates attached and provisions for investing in a job investment vehicle such as a Repatriation Bond, then that should have a net positive impact on the federal deficit. A component of this argument is that these types of legislative actions would encourage corporations to redirect more capital to their international affiliates, creating less taxable corporate income domestically. However, I recently heard at a White House briefing that U.S. corporation domestic tax payments make up only 7% of the U.S. federal budget. Finding a way to increase the dollars that the U.S. government collects through corporate taxes should go a long way in reducing the national debt – not increasing it.

Subset Issues

- ***Housing***

The short-term recommendation only addresses the housing issue to the extent that it has a job creation component that would allow some people to regain employment and perhaps save them from home foreclosure. A million new jobs would go a long way in stabilizing housing for those individuals and their communities, but would not satisfy the full need in housing. The possible connection between repatriation and the long-term strengthening the housing market is explored in much more detail in **Appendix D** of this MP.

YES. HIA-2 SUFFICIENTLY OVERCOMES THE ISSUES OF HIA-1.

6.7.2 LONG-TERM: Congress and the President should authorize the U.S. Housing and Urban Development (HUD) Agency to design and propose a Community Development Block Grant program focused specifically on Sustainable Community Development (CDBG-S) for possible implementation attached to long-term repatriation of U.S. Foreign Profits

Recommendation #2 would suggest that the political leaders take a longer term view of how to drive job creation and sustainable development in the United States attached to repatriation of corporate foreign profits. As I stated earlier in this paper, this growth of overseas capital is not an anomaly. The U.S. must find a way to benefit from it.

My top long-term recommendation as subset of Recommendation #2 would be for the U.S. government to decouple taxes on foreign profits of U.S. based corporations from the rest of the tax code. It has been suggested that any and all ideas are on the table when it comes to strengthening the American economy. However, it has also been said that the President will not consider specific elements of tax policy outside of a comprehensive reform. According to Largo, Florida newspaper advice columnist Malcolm Berko, the current tax code is over 76,000 pages (up from 505 pages in 1939) and is growing at 3.2 percent annually, or by more than 2,200 pages.²⁰⁸ According to the November 10, 2011 article by Berko, the chances of a major tax code overhaul anytime soon is unlikely with all of the IRS tax agents it would put out of work and the tens of thousands of registered lobbyists working on behalf of lawyers, accountants and CPAs who make their living because of the complexity of the tax code. I believe decoupling the code that regulates repatriation will offer a great opportunity to benefit from international growth, which is unique from the domestic policy situation.

My long-term policy proposal can be largely understood by reading through Appendix D, which discusses the connection between repatriation and housing. The core of this program would identify ways to attach the awarding of credits that could be used for repatriating foreign profits with certain activities associated with sustainable (social and environmental) practices that encourage job creation and growth. This would entail creating separate classes of Repatriation Credits that could be sold, traded and banked in an open and transparent marketplace. I identified several possible strategies for this recommendation earlier in this document that included an annual allocation of credit to states and HUD regulatory oversight. This concept still has much work to be done on it which is why the recommendation is to allow HUD to work on structuring such a policy for proposal. A well thought out strategy could lay the foundation for national investment from the private sector in sustainable infrastructure, housing and small business. I believe exploration of long-term policy that would lead to such outcomes is worth an effort.

7 Conclusion: The Bridge to Somewhere

		POLITICAL OPTIONS	
		Compromise	Holdout
CORPORATE OPTIONS	Compromise	Everyone Wins	Politicians Win
	Holdout	America Wins	America Loses
	Compromise	Corporations Wins	No One Wins
	Holdout	America Loses	Everyone Loses

Truly transformational public policies, like the ones that created national land preservation and environmental protection strategies, launched Social Security and Unemployment Insurance, and those that sought to end rampant poverty and discrimination, are rare in modern times. They are rare not simply because we live in a more polarized political environment, but more notably because those kinds of policy choices take both incredible imagination and vision, as well as incredible courage. We have often heard in the political arena of the actual and figurative Bridges to Nowhere. And while no one wants those kinds of bridges, America, if creative enough with its repatriated tax policy has the opportunity to build a Bridge to Somewhere. We cannot let the unknown scare us. The potential negative outcomes of a second repatriation act are unknown at this time; but so are the potential positive outcomes. We only benefit if we move towards that unknown.

I used to give a speech where I described this mythical and charming place where the grass was greener, more people thrived, and we lived in a much more environmentally sound world. In that place which many of us called *sustainable*, we had a “green economy” that not only created green jobs and opportunity for citizens of today, but also opportunities for many more in the future. The burned out model of the past, which has some elements worth carrying forward, also drove many to the brink during the current recession. They look behind them and they see nothing but burned out field and darkness and proclaim, “I don’t want to go back there!” Yet, as they look out front of themselves, at that better, more prosperous and sustainable place, it seems so far away. The difference between our perilous present and that prosperous future is simply the moat of fear, uncertainty and trepidation that separates where we are from where we ought to be.

This moat standing between the present and the future is no small matter. It is wide and it is deep. Furthermore, the landscape on the moat floor is littered with those brave souls who have tried to navigate across before. Others can be seen valiantly struggling down below as they attempt to climb up the steep and slippery slope of the moat in pursuit of that better place on the other side. But to many of the onlookers, most of those struggling individuals look like they are working hard to not just stay in one place, but to keep from falling by the wayside. And the folks who remain on the “old economy side” even as perilous as it is, look down and say, “I don’t want to go down there!” At that point, what is behind, though harsh, doesn’t look so bad anymore, because it is at least the perilous of the known versus the perilous of the unknown.

It would be beneficial to all stakeholders for the United States government to have a policy to address the repatriation of U.S. profits back to America taking into account the modern world. The quicker such an action can happen, the better, assuming there are enough components of a

bill to satisfy all parties involved. A replay of 2004 would be disastrous for everyone. For corporations it would show that there is no good faith effort on their part to try and help the country from where their success arose. They might get the funds back from abroad at a cost of virtually nothing, but what would be lost in the process? That might be the final straw to break what remains of a weakening connection between American corporations and American citizens.

Some corporations express a demeanor that seems to be unconcerned with such attitude. And that may very well be true, since corporations are nothing more than organizational structures established for the purposes of conducting some sort of business. However, I do not think that is the true sentiment of the individuals who lead those firms. Is there truly any business leader who wants the greatest achievement of their lifetime to be categorized as fighting tooth and nail to avoid paying taxes to, and creating jobs in, a country that helped drive its success when that country was at its most economically vulnerable? Is that what they want to explain to their kids or grandkids that they are most proud of? Is that what they want on their epitaphs? I don't think so.

For the U.S. government, a replay of the 2004 repatriation failure, where billions of dollars returned homes without corresponding jobs, would show that the smartest nation on earth can be duped – twice – with the same scheme. On the other hand, as tens of millions of American citizens find themselves unemployed and fighting for survival, the political leaders must look for every tool in the toolbox that could possibly create jobs and lead our country to a rebound. At this point, most would agree that having \$1.2 trillion sitting overseas doing nothing is not doing anyone any good. We must find a way to turn what is now the U.S. repatriation problem into the U.S. repatriation solution.

This Conclusion commences with a Game Theory diagram that I believe accurately reflects the choices facing both political leaders and corporate leaders. In this high-stakes game of chicken there are only a few possible outcomes. If Corporations hold out for the deal that they want, while the Politicians compromise, then Corporations win but America may lose. If the Politicians hold out for the deal that they want, while the Corporations compromise, then the Political leadership wins, but America may lose. If both political leaders and corporations are able to compromise then neither may get everything that they want, but America as a whole has a chance to win. Unfortunately, if both political leaders and corporations are determined to hold out for the best deal for themselves, then it is certain that the biggest loser will be the United States as a whole. That would be America's own 21st century version of Tragedy of the Commons, as no one would be willing to give up something today for a better collective future.

If we do away with any and all taxes that we collect from overseas repatriations then we will have missed a tremendous opportunity to link growth abroad with domestic development. However, if we overtax our corporations who grow overseas then we create a disincentive for them to return capital to American shores. Repatriation offers a limited and unique opportunity to the United States government as it is obviously a problem with an in-demand solution. The U.S. government should take advantage of that, but do so in a way that the market can understand. Creating a market for "repatriation credits" linked to things such as housing, bonds, environmental and social impact investing would offer value to everyone. A first step towards that is enacting legislation that builds on the concept of a Sustainable Community Energy Bond. The Foreign Earnings Reinvestment Act of 2011 offers a legitimate starting point, but adding the elements associated with this Masters Project would go far in moving us towards a solution where everyone wins. This cannot be a solution where only one class of citizens win. America

is in need of a way to reinvigorate its competitiveness, increase its employment, invest in its energy future, and do so in a non-divisive manner.

I spoke at the onset of this Master's Project about the challenges that small towns across North Carolina face in our modern society; particularly those in rural communities. 2011 has been quite a year. For anyone who follows the stock market, I believe our last year has been much like the stock market. We have had some ups and we have had some downs. We have had some highs and we have had some lows. Communities have seen their capital shrink and decline as their citizens have been squeezed. This has led to a painful, but sometimes necessary cut in local government staffing and services. It's hard to imagine a worse fate for those workers who remain behind to do the work of two or three as they watch their friends, teammates, colleagues and those that they care about separated from their organization; except unemployment itself.

One only needs to walk a short way around our state capital of Raleigh, and in many other communities around the state – and no doubt around the country – to know that something of a dark cloud still lingers. Loss leaves us all feeling a bit more anxious, nervous and uncertain.

The world we thought we knew becomes a figment of our imaginations and we feel as though we are living day to day – not knowing what is just around the corner. In Maslow's Hierarchy of Needs, that is the bottom of the pyramid, where mere survival is the only goal. Those who are preoccupied only with survival are not able to move beyond that to other levels of the pyramid such as security, love, education – and the peak of the pyramid – known as self-actualization.

Moving to a more sustainable and thoughtful economy is self-actualization for the United States. It is just across the moat – on the other side of the shore. But who wants to focus on tomorrow, when you are merely trying to make it through today.

In late-August 2011, I had to travel to my hometown of Fayetteville, North Carolina, after learning of the death of a cousin of mine. She was an older cousin, who died after a battle with an illness; so the death wasn't totally unexpected. However, since I had not been informed of the severity of the situation, it was a surprise to me. Loading into my car in the mid-afternoon, I hit the highway and headed home for the wake that evening.

I arrived in town a bit before the start of the wake, so I decided to go to the side of town where I grew up. I grew up in "rural" eastern Fayetteville – right next to the tiny town of Vander (population: 745). Returning there is always special to me. But it had been 5 years since I had visited any part of Fayetteville with regularity, since my mother had left town to start a nearly year-long hospital stay in Durham. Following a difficult eight month illness, she passed away in spring 2007. Though I still have family there, including my father and siblings, they now generally come to my home for holidays and events.

As I rode through east Fayetteville on that Monday afternoon, memories of my mother came to me, as did a thousand others from childhood. As I drove up one road, I remembered who used to live there...up another road, I remembered what used to be on that spot...up another road, I couldn't believe such and such still lived there. I drove up the street that I lived on from age 0-4 and remembered the bad kids up the street who used to throw eggs at Halloween. I dodged the mud puddles on the dirt road I grew up on from age 5-15. Those same mud puddles were there when I was a kid.

I remembered "Waterville USA," that for at least a couple of summers seemed like it was going to be an economic development anchor for the community but soon closed down. It was not a major loss for me because I couldn't afford the \$8 entrance fee anyway. I used to stand outside

the fence and look in at the other kids...some I knew...and some I did not...sliding down the big waterslide or jumping in the wave pool. I guess there were a lot more kids than those in my household who couldn't afford the ticket price. 25 years later...the gawking towers that once rested on the several acres a couple of miles from my home are totally gone...have been for years...and there is no trace that it ever existed except for those with a memory that stretches back a quarter-century. Though I indicated that as a child I did not see the closing of Waterville, USA as a major loss to me. As an adult I now realize how big of an economic loss it was for my small community.

I visited my elementary school and looked at it with fondness. I looked at the little school with wonderment as two painters prepared it for the upcoming year. I stared at the little grass field where I first started my track career in earnest. I remembered where the cafeteria was, and where every single one of my elementary classrooms were located. It's amazing what the human mind retains.

I'm sure you have little interest in tales of youth gone by. But the capstone of the evening was after the wake, when my dad led me out to the place where my paternal grandparents lived so long ago and where I visited every single Sunday and summer as a child – Wade, North Carolina (population: 489). It had been a literal 30 years since I had been there; not since 1981 when my paternal grandfather passed away, prompting my grandmother, who died on December 3, 2011 as I completed this MP, to relocate to the Fayetteville city limits. Yet the memories came rushing back. I knew I was back home. And it felt good – even if what led to that moment was somber (the death of a family member). The husband of the cousin that passed away even produced an old black and white photo of my grandfather as a young man. I had only known my grandfather as an old, grayed man with a liking for Wild Irish Rose and tobacco snuff, who had a quarter of

his fingers chopped off in a mill accident in his mid-20s – bringing to a halt what I understand was an incredible talent for piano playing. In the photo I saw, he was tall, dark and handsome – still full of vigor, strength and vitality. I marveled at the long ago image because it was a man I had grown up with but in a face and body that I had never seen.

What amazed me during my trip down memory lane that afternoon in August was how much the city of Fayetteville itself had changed over the years; yet how much, in some ways, the small surrounding towns had remained the same. No, every single thing didn't look the same from yesteryear, but so much had remained the same – or even gotten worse. I saw the same old houses...some of the same old commercial structures – though they may now house different types of businesses...and I saw the same flow and pace of the community. On one hand, that was so refreshing. On the other hand, it was somewhat depressing. Through several economic booms and busts – those communities were somewhat left untouched...unaffected...un-benefited from it all. Through dot-com bubbles...housing bubbles...the greatest economic expansion in history during the mid-90s, the community stayed the same. And so if it stayed still during such a great wealth boom...what is its fate in the second worst economic crisis in American history?

I am sure that there are many other stories just like mine all across this great nation of ours. As I ride through rural small towns across North Carolina and beyond, I imagine that they are much like my grandfather had been to me – a living contrast to what it had once been. I know that those towns, once young, strong and vibrant like my grandfather had a seminal moment like the closing of a factory, the mass exodus of its young people, or the construction of a new bypass that directed people around the main business thoroughfare – cutting off its figurative fingers and silencing its music. In order to help the 500 plus communities in North Carolina succeed, and the thousands of other small and struggling towns across America, it's going to take us trying

new things. It is going to take patience. Everything that we try as a country is not going to work out the way we plan – so we have to be able to adapt and go to the next configuration without shame or blame. We have to experiment. We have got to get our groove back. We have to find a reason to believe. But from a very practical and primitive standpoint, communities need access to capital to be more competitive, to create jobs, and to build a new green and sustainable economy. In a highly divisive and partisan environment, where public monies are shrinking, while private capital is growing – we must find a way to take advantage of the success of our American companies overseas.

It is time that we build a bridge across that moat to the other side – to that sustainable economy. It is time that we demonstrate that we can build an economy that not only delivers economic returns, but also social and environmental ones as well. Connecting the repatriation of foreign profits to the building of this bridge, in the right way, is not only the right thing to do; it is the intelligent thing to do as well. America would be the better for it. If done right – everybody wins.

None of this may mean much to you. But it means quite a bit to me. Because I do sit in the chair that I do, I take the role of leadership seriously. I talked about at least four deaths earlier in this conclusion – my mother, cousin, grandmother and grandfather. However, I am here to assure everyone that America is not dead yet. We have been wounded in recent times, but we aren't dead. We are better than that. We are not only going to survive...we are going to thrive.

How do I know this? Well I know this because although I know what we lost...I also know what remains in America. We are a nation of fighters. We are a nation of passionate and caring people who wake up every day to serve the greater good. And I know that no one can hold us

down if we really put our minds to getting up. I know it seems dark now...but like the house that is wrecked after a tornado, but maintains its concrete foundation – we can rebuild America; and we can rebuild ourselves to be better than that which existed before. We cannot afford to stay at the bottom of the pyramid living with a day-to-day mentality and struggling to survive. There is a difference between form and substance. Form can change. Substance remains. The substance of America is still there. It has always been our ingenuity and innovation that has made us exceptional.

I love this country and I love my state and I want both to not just survive – but to thrive.

However, I also want the planet as a whole to thrive as well. To do so in modern times is going to take a tremendous amount of ingenuity. The 20th century was the American Century and our citizens thrived as we sought to spread our model of democratic capitalism around the world.

Though the principles of democratic capitalism remain as strong as ever, the economic engine that propelled it forward is constantly changing as globalization speeds ahead. Connecting repatriation to sustainable community development offers America a way forward. Tax policy is an effective way to incentivize job creation – everyone agrees with that. The tax treatment of repatriating dollars will seal America's fate as a globally competitive sustainable economy or not – both presently and long into the future. We should begin immediately to build our bridge to somewhere while using our collective and political imagination, vision and courage to embrace the positives of the unknown. The right policy on foreign earned profits can be transformational.

The 21st century will be the Sustainable Century. It will have to be! For a country and a planet to survive, it must learn to find the most efficient way to grow economically while balancing social and environmental issues as well. America has the opportunity to once again lead the way.

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Appendix A-1: FOREIGN EARNINGS REINVESTMENT ACT SUMMARY

Foreign Earnings Reinvestment Act

Sen. Kay Hagan (D-NC) and Sen. John McCain (R-AZ)

The bipartisan Foreign Earnings Reinvestment Act encourages American companies to bring overseas earnings back to the United States and creates strong incentives for those firms to invest these earnings in US employees.

Tax Rate:

- o The Foreign Earnings Reinvestment Act reduces the 35 percent corporate rate to an **8.75 percent effective rate** on foreign earnings brought back to the United States. The rate is achieved through a temporary dividends received deduction (DRD) of 75 percent.

Job Creation Incentives:

- o The Foreign Earnings Reinvestment Act allows firms to obtain up to a **5.25 percent effective repatriation rate** if they expand their U.S. payroll during 2012.
 - o *Minimum Effective Rate*– The lowest repatriation rate can be achieved incrementally in accordance with expanding qualified payroll – through net job creation or higher employee pay. In order to receive the lowest repatriation rate, a company would have to increase its “qualified payroll” by 10%.
 - o *“Qualified payroll”* – All wages paid to employees that are subject to payroll tax.

Penalty for Job Cuts:

- o The proposal discourages firms from reducing employment by including in a company’s gross income calculation **\$75,000 per fulltime position that is eliminated.**

Appendix A-2: FOREIGN EARNINGS REINVESTMENT ACT OF 2011

MCG11294 S.L.C.
 112TH CONGRESS
 1ST SESSION S. _____

To amend the Internal Revenue Code of 1986 to allow a temporary dividends received deduction for dividends received from a controlled foreign corporation.
 IN THE SENATE OF THE UNITED STATES

Mrs. HAGAN (for herself and Mr. MCCAIN) introduced the following bill; which was read twice and referred to the Committee on _____

A BILL

To amend the Internal Revenue Code of 1986 to allow a temporary dividends received deduction for dividends received from a controlled foreign corporation.

1 Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the “Foreign Earnings Re-
 5 investment Act”.

**6 SEC. 2. ALLOWANCE OF TEMPORARY DIVIDENDS RECEIVED
 7 DEDUCTION FOR DIVIDENDS RECEIVED
 8 FROM A CONTROLLED FOREIGN CORPORA-
 9 TION.**

10 (a) APPLICABILITY OF PROVISION.—

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1 (1) IN GENERAL.—Subsection (f) of section 965
 2 is amended to read as follows:

3 “(f) ELECTION; ELECTION YEAR.—

4 “(1) IN GENERAL.—The taxpayer may elect to
 5 apply this section to—

6 “(A) the taxpayer’s last taxable year which
 7 begins before the date of the enactment of the
 8 Foreign Earnings Reinvestment Act, or

9 “(B) the taxpayer’s first taxable year
 10 which begins during the 1-year period beginning
 11 on such date.

12 Such election may be made for a taxable year only
 13 if made on or before the due date (including exten-
 14 sions) for filing the return of tax for such taxable

15 year.

16 “(C) ELECTION YEAR.—For purposes of
17 this section, the term ‘election year’ means the
18 taxable year—

19 “(i) which begins after the date that
20 is one year before the date of the enact-
21ment of the Foreign Earnings Reinvest-
22ment Act, and

23 “(ii) to which the taxpayer elects
24 under paragraph (1) to apply this sec-
25tion.”.

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1 (2) CONFORMING AMENDMENTS.—

2 (A) EXTRAORDINARY DIVIDENDS.—Section

3 965(b)(2) of such Code is amended—

4 (i) by striking “June 30, 2003” and

5 inserting “September 30, 2011”, and

6 (ii) by adding at the end the following

7 new sentence: “The amounts described in

8 clauses (i), (ii), and (iii) shall not include

9 any amounts which were taken into ac-

10count in determining the deduction under

11 subsection (a) for any prior taxable year.”.

12 (B) DETERMINATIONS RELATING TO RE

13LATED PARTY INDEBTEDNESS.—Section

14 965(b)(3)(B) of such Code is amended by strik-

15ing “October 3, 2004” and inserting “Sep-

16tember 30, 2011”.

17 (C) APPLICABLE FINANCIAL STATE-

18MENT.—Section 965(c)(1) of such Code is

19 amended by striking “June 30, 2003” each

20 place it appears and inserting “September 30,

21 2011”.

22 (D) DETERMINATIONS RELATING TO BASE

23 PERIOD.—Section 965(c)(2) of such Code is

24 amended by striking “June 30, 2003” and in-

25serting “September 30, 2011”.

4

MCG11294 S.L.C.

1 (b) DEDUCTION INCLUDES CURRENT AND ACCUMU-
2LATED FOREIGN EARNINGS.—

3 (1) IN GENERAL.—Paragraph (1) of section
4 965(b) of the Internal Revenue Code of 1986 is
5 amended to read as follows:

6 “(1) IN GENERAL.—The amount of dividends
7 taken into account under subsection (a) shall not ex-
8 ceed the sum of the current and accumulated earn-
9 ings and profits described in section 959(c)(3) for
10 the year a deduction is claimed under subsection (a),
11 without diminution by reason of any distributions
12 made during the election year, for all controlled for-
13 eign corporations of the United States shareholder.”.

14 (2) CONFORMING AMENDMENTS.—

15 (A) Section 965(c) of such Code, as
16 amended by subsection (a), is amended by
17 striking paragraph (1) and by redesignating
18 paragraphs (2), (3), (4), and (5), as paragraphs
19 (1), (2), (3), and (4), respectively.

20 (B) Paragraph (4) of section 965(c) of
21 such Code, as redesignated by subparagraph
22 (A), is amended to read as follows:
23 “(4) CONTROLLED GROUPS.—All United States
24 shareholders which are members of an affiliated
25 group filing a consolidated return under section

5

MCG11294 S.L.C.

1 1501 shall be treated as one United States share-
2 holder.”.

3 (c) AMOUNT OF DEDUCTION.—

4 (1) IN GENERAL.—Paragraph (1) of section
5 965(a) of the Internal Revenue Code of 1986 is
6 amended by striking “85 percent” and inserting “75
7 percent”.

8 (2) BONUS DEDUCTION IN SUBSEQUENT TAX-
9 ABLE YEAR FOR INCREASING JOBS.—Section 965 of
10 such Code is amended by adding at the end the fol-
11 lowing new subsection:

12 “(g) BONUS DEDUCTION.—

13 “(1) IN GENERAL.—In the case of any taxpayer
14 who makes an election to apply this section, there
15 shall be allowed as a deduction for the first taxable
16 year following the election year an amount equal to
17 the applicable percentage of the cash dividends
18 which are taken into account under subsection (a)
19 with respect to such taxpayer for the election year.

20 “(2) APPLICABLE PERCENTAGE.—For purposes
 21 of paragraph (1), the applicable percentage is the
 22 amount which bears the same ratio (not greater
 23 than 1) to 10 percent as—
 24 “(A) the excess (if any) of—

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1 “(i) the qualified payroll of the tax
 2 payer for the calendar year which begins
 3 with or within the first taxable year fol-
 4 lowing the election year, over
 5 “(ii) the qualified payroll of the tax-
 6 payer for calendar year 2010, bears to
 7 “(B) 10 percent of the qualified payroll of
 8 the taxpayer for calendar year 2010.”
 9 “(3) QUALIFIED PAYROLL.—For purposes of
 10 this paragraph:
 11 “(A) IN GENERAL.—The term ‘qualified
 12 payroll’ means, with respect to a taxpayer for
 13 any calendar year, the aggregate wages (as de-
 14 fined in section 3121(a)) paid by the corpora-
 15 tion during such calendar year.
 16 “(B) EXCEPTION FOR CHANGES IN OWN-
 17 ERSHIP OF TRADES OR BUSINESSES.—
 18 “(i) ACQUISITIONS.—If, after Decem-
 19 ber 31, 2009, and before the close of the
 20 first taxable year following the election
 21 year, a taxpayer acquires the trade or busi-
 22 ness of a predecessor, then the qualified
 23 payroll of such taxpayer for any calendar
 24 year shall be increased by so much of the
 25 qualified payroll of the predecessor for

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1 such calendar year as was attributable to
 2 the trade or business acquired by the tax-
 3 payer.
 4 “(ii) DISPOSITIONS.—If, after Decem-
 5 ber 31, 2009, and before the close of the
 6 first taxable year following the election
 7 year, a taxpayer disposes of a trade or
 8 business, then—

9 “(I) the qualified payroll of such
 10 taxpayer for calendar year 2010 shall
 11 be decreased by the amount of wages
 12 for such calendar year as were attrib-
 13utable to the trade or business which
 14 was disposed of by the taxpayer, and
 15 “(II) if the disposition occurs
 16 after the beginning of the first taxable
 17 year following the election year, the
 18 qualified payroll of such taxpayer for
 19 the calendar year which begins with
 20 or within such taxable year shall be
 21 decreased by the amount of wages for
 22 such calendar year as were attrib-
 23utable to the trade or business which
 24 was disposed of by the taxpayer.

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1 “(C) SPECIAL RULE.—For purposes of de-
 2termining qualified payroll for any calendar
 3 year after calendar year 2011, such term shall
 4 not include wages paid to any individual if such
 5 individual received compensation from the tax-
 6payer for services performed—
 7 “(i) after the date of the enactment of
 8 this paragraph, and
 9 “(ii) at a time when such individual
 10 was not an employee of the taxpayer.’’.

11 (3) REDUCTION FOR FAILURE TO MAINTAIN
 12 EMPLOYMENT LEVELS.—Paragraph (4) of section
 13 965(b) of such Code (relating to limitations) is
 14 amended to read as follows:

15 “(4) REDUCTION IN BENEFITS FOR FAILURE
 16 TO MAINTAIN EMPLOYMENT LEVELS.—
 17 “(A) IN GENERAL.—If, during the period
 18 consisting of the calendar month in which the
 19 taxpayer first receives a distribution described
 20 in subsection (a)(1) and the succeeding 23 cal-
 21endar months, the taxpayer does not maintain
 22 an average employment level at least equal to
 23 the taxpayer’s prior average employment, an
 24 additional amount equal to \$75,000 multiplied
 25 by the number of employees by which the tax

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1 payer's average employment level during such
2 period falls below the prior average employment
3 (but not exceeding the aggregate amount al-
4lowed as a deduction pursuant to subsection
5 (a)(1)) shall be taken into income by the tax-
6payer during the taxable year that includes the
7 final day of such period.

8 “(B) AVERAGE EMPLOYMENT LEVEL.—
9 For purposes of this paragraph, the taxpayer's
10 average employment level for a period shall be
11 the average number of full-time United States
12 employees of the taxpayer, measured at the end
13 of each month during the period.

14 “(C) PRIOR AVERAGE EMPLOYMENT.—For
15 purposes of this paragraph, the taxpayer's
16 ‘prior average employment’ shall be the average
17 number of full-time United States employees of
18 the taxpayer during the period consisting of the
19 24 calendar months immediately preceding the
20 calendar month in which the taxpayer first re-
21ceives a distribution described in subsection
22 (a)(1).

23 “(D) FULL-TIME UNITED STATES EM-
24PLOYEE.—For purposes of this paragraph—

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1 “(i) IN GENERAL.—The term ‘full
2time United States employee’ means an in-
3dividual who provides services in the
4 United States as a full-time employee,
5 based on the employer's standards and
6 practices; except that regardless of the em-
7ployer's classification of the employee, an
8 employee whose normal schedule is 40
9 hours or more per week is considered a
10 full-time employee.

11 “(ii) EXCEPTION FOR CHANGES IN
12 OWNERSHIP OF TRADES OR BUSINESSES.—
13 Such term does not include—
14 “(I) any individual who was an
15 employee, on the date of acquisition,

16 of any trade or business acquired by
17 the taxpayer during the 24-month pe-
18riod referred to in subparagraph (A),
19 and
20 “(II) any individual who was an
21 employee of any trade or business dis-
22posed of by the taxpayer during the
23 24-month period referred to in sub-
24paragraph (A) or the 24-month period
25 referred to in subparagraph (C).

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1 “(E) AGGREGATION RULES.—In deter-
2mining the taxpayer’s average employment level
3 and prior average employment, all domestic
4 members of a controlled group shall be treated
5 as a single taxpayer.”.
6 (d) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to taxable years ending after the
8 date of the enactment of this Act.

Appendix B-1: REPATRIATION FUNDS MODEL COMPARATIVE ANALYSIS

Figures 2 and 3 at the end of this Appendix perform a comparative analysis of money repatriated under three different scenarios. The analysis models and compares capital if it were repatriated under the proposed 2011 Foreign Earnings Reinvestment Act (FERA) [the proposed Hagan-McCain bill] versus the proposed Homeland Investment Act 2, HIA-2 [as proposed by this MP]. Figure 2 models a \$110 million repatriation by a corporation and Figure 3 models a \$1.1 billion repatriation. In this model, the 2004 Homeland Investment Act, and its 5.25% repatriation rate, is used as the base model for these comparative analysis. All figures are in millions.

A number of assumptions are built into the modeling. Those assumptions are explained. Those categories that seem self-explanatory are not explained. Formulas listed in {}:

D – a corporation would choose an amount to repatriate and that total would return to the U.S.
{D=repatriated amount}

E – under HIA-2 a Sustainable Community Energy (“SCE”) Bond would be purchased with proceeds from the repatriated funds at the agreed upon percentage. \$10 returned for every \$1 invested. The Amount to the Corporation (E) once repatriated equals the amount repatriated (D) minus amount going to SCE Bond ($S=D*0.090909$) *{E=D-S}*

F – the Tax Rate (F) for the respective categories are 5.25%, 8.75% and 4.75%. FERA has a “low” and “high” figure as reflected in the bill language related to payroll expansion or contraction.

I – “SCE” is an acronym for Sustainable Community Energy Bond (S). Under the first repatriated scenarios, no Bond is purchased. HIA-2 is the only scenario that has a Bond amount.

J – the SCE is proposed as a 10-year note that returns at roughly 50 basis points (0.5%) above Treasury bills. This is proposed as a hedge for the corporate investor in case rates were to rise over the life of the note. On Friday, October 14, 2011, 10-year Treasury notes closed at 2.248% (see Figure 1 below).^{xii}

Figure 1: Treasuries²⁰⁹

5:25 p.m. EDT 10/14/11

	Price Chg	Yield (%)	
<u>1-Month Bill*</u>	0/32	0.020	
<u>3-Month Bill*</u>	0/32	0.020	
<u>6-Month Bill*</u>	-0/32	0.056	
<u>1-Year Note*</u>	0/32	0.101	
<u>2-Year Note*</u>	1/32	0.269	
<u>3-Year Note*</u>	1/32	0.508	
<u>5-Year Note*</u>	-2/32	1.114	
<u>7-Year Note*</u>	-8/32	1.708	
<u>10-Year Note*</u>	-18/32	2.248	
<u>30-Year Bond*</u>	-1 21/32	3.234	
* at close			

Source: http://online.wsj.com/mdc/public/page/mdc_bonds.html?refresh=on

K – SCE are reflected as tax-free bonds in the illustrations with no associated tax on the interest

L – once all is taken into consideration, this gives the effective tax rate for the funds repatriated. Funds for the first two scenarios (HIA-1 and FERA) remain the same as their stated tax rate. Since the amount

^{xii} The interest rate on a 10-year-note had dropped to 1.96% on November 10, 2011.

of the funds that are invested in the SCE is invested tax free, then it makes the rate for HIA-2 even lower than the 4.75% rate at 4.32%. The Taxes paid by Corporation (G) was calculated as the Amount to Corporation (E) times the Tax Rate (F). $\{G=E*F\}$. Amount to Corporation after Tax (H) is equal to Amount to Corporation (E) minus Taxes paid by Corporation (G). $\{H=E-G\}$. Effective Tax Rate (L) is calculated by dividing Taxes paid by Corporation (G) by Amount repatriated (D). $\{L=G/D\}$

M – this figure is the amount of taxes paid by the repatriating corporation in comparison with the base HIA-1. A negative number means that the corporation paid more in the scenario than the base year. Amount saved (M) equals Taxes paid by Corporations (G) under the various scenarios (G-FERA High; G-FERA Low; G-HIA2) compared to the base line tax amount (G-HIA1). $\{M=[G-HIA1]-[various\ scenarios]\}$

N – this figure is calculated by taking the figure that is returned to corporations after taxes (H) and assuming that if corporations paid out 92% of their repatriated funding in 2004 on dividend payments to their stockholders, then they would do similar this time as well. It is then assumed that there will be a 15% federal tax on those dividend figures. Thus, this figure is calculated by adding the amount a corporation paid in direct taxes (G) to the U.S Treasury based upon category of repatriation plus the 15% associate with taxes on dividends that their shareholders paid. $\{N=(H*0.92)*0.15+G\}$

P – this assumes that a corporation would state that they would do better by investing the funds that would go into the SCE Fund (I) into the marketplace to elevate returns. This figure assumes that those corporations invest \$10 million into the market. Under these scenarios it has been calculated that any firm not investing into the SCE Bond (I) would get a very generous alternative return on investment (AROI) at a rate double what the SCE Bond is paying (J). In this scenario, the return on investment is calculated at 5.50%. $\{AROI=2*J\}$. That is a pretty generous figure. This takes the original after tax income (H) and adds the returned principal (Amount = S) and associated interest (AROI) to that amount. $\{P=(\$10\ million*AROI)+H\}$ Note: for HIA-2 return is calculated as only J (2.75%) = $\{(I*J)+H+I\}$

R – this figure represents the taxes that a corporation would have had to pay on its return from that \$10 million investment after 10 years. This assumed a corporation would pay roughly 20% on those returns.

$\{R=(P-H)*0.20\}$. *Note: the return on the SCE Bond is tax exempt*

T – subtracting the capital return after 10 years (P) minus associated taxes (R). $\{T=P-R\}$

U – based on FERA legislation, the only way a corporation can get to the 5.25% tax rate is if they expand their payroll by roughly 10%. This line-item reflects an impact on the 5.25% FERA repatriated funds, assuming that a company had to hire more people (a long-term fixed cost) to comply. This line-item was straight 10% capital reduction assuming those funds would be paying for salaries. $\{U=T-(T*0.10)\}$.

Note: since FERA Low is the only place where this calculation is relevant, it is the only area where this formula was used.

V – this shows the associated returns of the other active options of repatriations (FERA High and FERA low) as compared to HIA-2. Consequently, in this model it is stating that HIA-2 returns nearly 5% more than a company doing FERA high, .82% more than the original HIA-1 bill and roughly 12% more when comparing HIA-2 with FERA and its payroll provision to get down to the 5.25 level. $\{V=[U \text{ under various scenarios minus } U\text{-HIA2}] \text{ divided by } U \text{ under various scenarios}\}$

X – a simple calculation of the amount a corporation paid in tax at repatriation (G) plus taxes on their returns (R) – if warranted. $\{X=G+R\}$

Y and **Z** – represents the difference in tax payments over the 10-year period under different scenarios and illustrates that under FERA high a corporation would pay about twice in taxes as under the HIA-2. $\{Y=X\text{-HIA2 minus } X \text{ under various scenarios}\}$ $\{Z=Y/X\}$

Based on the comparative analysis of the various policies (HIA-1, FERA, HIA-2) it shows that even when assuming that an investing corporation can get *twice* the return on investment in the current marketplace, HIA-2 still outperforms those investments. It should be noted that this

representation of HIA-2, as mentioned in the “Recommendations Addendum” would encompass both the provisions from FERA and those proposed by this Masters Project. Therefore, it would be logical that a corporation could have all of the above options, save HIA-1 which is simply there as a baseline to compare to the 2004 legislation.

It was difficult to accurately calculate for what the actual impact to capital would be regarding the provision related to adding to payroll in order for the corporations to get to the 5.25% tax rate of FERA. That is using the logic that corporations would not find a creative way to circumvent that element. In HIA-2 the reduction in payroll stature would still remain, however a corporation would not be required to increase their payroll in order to get to the 4.75% rate. This means that if a corporation opted for the SCE Bond then they would get the tax rate of 4.75% (effective rate of 4.32%) without having to hire staff. The investments from the SCE Bonds managed by private sector third-party investment managers would create jobs in the marketplace. However, if a corporation subsequently reduced their payroll by the provisions originally reflected in FERA then the tax rate on the repatriated capital (excluding the SCE Bond) would be penalized as FERA indicates (or whatever is the final agreed upon figure that passed legislation).

Though not an exact science by any means, I did also take into account the notion that corporations interested in repatriating funds to do stock buybacks, dividend payouts, or debt reduction might argue that the result of such actions would be reflected in their increased stock price, which is not captured in my analysis. Well, I actually did take that into consideration.

I made the assumption that since nearly every major U.S. corporation would take part in repatriation and the said activities (buybacks, payouts, debt reduction), that either those activities would not have any substantial increase in the company’s stock price, or that if stock prices did

increase then they would increase at relatively the same rate across all of the corporations. Consequently, this analysis assumed that since the market as a whole would all be privy to the fact that an earnings per share (EPS) increase came because of the tax treatment of overseas profits, and not from any other major event such as increase in domestic demand, that any stock movement would be uniform across corporate America, nominal and basically a wash. Therefore, I did not believe it was relevant to the comparative analysis since even under HIA-2 corporations are able to utilize their repatriated funds for any purpose they choose – including stock buybacks, dividend payouts, and debt reductions. Thus, with the exception of having a few extra dollars to do those activities with (based on the repatriation of the same number of dollars minus increased taxes), there would be nothing unique about the situation of corporations that do not utilize HIA-2 versus FERA.

Furthermore, though it is not reflected into the calculations of the analysis, I believe that corporations might see a stock increase by repatriating under HIA-2 versus FERA. I drew this conclusion based on the notion that there truly is a fragile connection that remains between the American public and American corporations and that this repatriation process (whatever it is) could determine the future of that connection. Tens of millions of young, educated people are unemployed and have a different sense of corporate America than what Baby Boomers or Generation Xers (my generation) might have. Generation Yers and beyond have never seen a stock market that has exploded with wealth making growth nor have they seen corporations provide workers with stable jobs, rising pay, and relative job security. The most recent generations have seen massive corporate layoffs, anemic hiring, and the decline of the American middle class – even as corporate profits continue to grow. In other words, they do not have the nostalgia of the Boomers who watched as the American Century was reflected by American

corporations drive the rise of the American middle class. In addition, this “new generation” is more likely to draw on their consciousness when making decisions about what products and services to buy, where they want to work, and where they want to invest whatever capital they have. They do this by finding those companies they feel “get it” and share their values. Plus, they have ever increasing tools to share their findings with their broad networks including friends, family, coworkers, and even people they do not know.

This may sound overly dramatic but I believe that this repatriation event could be a seminal moment for the future relationship between the American corporation and the American citizen. I think, depending on what happens with the repatriation debate and what corporations decide to do with those dollars (if allowed to return), will be closely scrutinized. I think that the amount of capital at stake is so substantial that the stakes are elevated. If corporations return trillions of dollars this time around, as more global profits are flowing, yet they decide only to invest in things such as stock buybacks and dividend payoffs – in addition to subsequent layoffs – I believe those companies who partake in those actions will fracture whatever the remaining ties are between them and the general public. This could be reflected by citizens, not just the younger generation, deciding that they do not want buy products from those companies – at least in the short-term when the memory is the strongest. They may also decide that they do not want to work for those companies either. This of course is assuming that readily available alternative options exist. For example, it may not be possible for me to change my electric utility without moving to a completely different geography. However, if I do most of my shopping online or at an actual mall where choices abound, I may find it relatively easy to make another choice.

Corporations may disregard this sentiment, but like in every other time period, companies that win the battle for customers and workforce talent will win the future. In my earliest framing in

this MP, of a successful enterprise being one that can attract money, market and management, the following logic follows.

If the youngest American citizens are reflective of future customers and future workers, yet they shun corporations that they do not feel care about anything beyond profit maximization (at the peril of social and environmental concerns), then so will investors. Some investors might forego investments because of the “socially-responsible screen,” whereas others, who are profit maximizers, would simply make a rational and logical decision that a company that has a hard time capturing customers and top talent is simply not an intelligent investment. This would make it more difficult and expensive for a corporation to access capital, but could also be reflected in a decrease in stock price – damaging stockholder value.

I believe that if properly executed, HIA-2 could present American corporations with the opportunity to enhance the value of their stock price over the course of the decade corresponding to the SCE Bond, whereas corporations that might repatriate under FERA would see a stock decline (per the money, market and management theory). Corporations that repatriated dollars under HIA-2 would be able to argue that they are balancing the needs of their own stockholders while also enhancing the public good. Although it was not reflected in these calculations, it is my feeling that companies could see an impact of their stock price and business over the long term based on “good will” versus “bad will.” Companies may say that the global consumer is not as discerning, so what the American public decides may not matter. However, America still is the largest economy in the world, and it still matters.

But beyond that, looking at the overall return – if stock prices are reflective of the decisions that corporations and their Treasurers make, then an intelligent and thorough investor would have to

ask whether a corporation has maximized their return on investment over the same decade reflected in the comparative analysis. The comparative analysis estimates that a dollar invested in a Sustainable Community Energy Bond under this MP's proposal of HIA-2 would return nearly 5% more than the same dollar invested in FERA-high and over 12% more than a dollar invested in FERA-low, net management fees over a 10-year period. Furthermore, it minimizes the tax liability and saves nearly 20% and more than 51% on taxes respectively. This means that not including any other externalities – positive or negative – related to the various scenarios of repatriation investments, that a corporation who aims to maximize shareholder value, would choose an investment in HIA-2. The positive externalities such as the benefits to the social and environmental landscape, and possibly the added value to the reputation of the firm – which could enhance its products to customers, enhance its appeal to top talent, enhance its ability to attract low-cost capital for growth, and the subsequent increase in stock value are all additional considerations. Finally, under the provisions of the proposed HIA-2 that would include the SCE Bond, those bonds would be 100% guaranteed based on future repatriations. If an investor fails to get their principal and interest returned, they would get credits towards future repatriations at 0% for the difference between their promised return and their actual return.

Figure 2: Repatriating \$110 million under various scenarios

			2004 Homeland Investment Act	2011 Foreign Earnings Reinvestment Act		2011 Proposed Repatriation Act per MP
<i>Figures in Millions \$</i>						
A	Amount Repatriated		\$ 110.00			
B				<i>Low</i>	<i>High</i>	
C			HIA-1	FERA		HIA-2
D	Amount Repatriated		\$ 110.00	\$ 110.00		\$ 110.00
E	Amount to Corporation		\$ 110.00	\$ 110.00		\$ 100.00
F	Tax Rate		5.25	5.25	8.75	4.75
G	Taxes Paid by Corporation		\$5.78	\$5.78	\$9.63	\$4.75
H	Amount to Corporation after tax		\$104.23	\$104.23	\$100.38	\$95.25
I	SCE Bond		\$0.00	\$0.00	\$0.00	\$10
J	Bond Coupon Rate		0.00%	0.00%	0.00%	2.75%
K	Tax Rate		0%	0%	0%	0%
L	Effective Tax Rate		5.25%	5.25%	8.75%	4.32%
M	Amount saved		\$0.00	\$0.00	-\$3.85	\$1.02
N	Tax Revenue to Treasury		\$20.16	\$20.16	\$24.01	\$17.89
O						
P	Return after 10 years		\$ 104.77	\$ 104.77	\$ 100.92	\$ 105.52
Q						
R	Taxes on return		\$0.11	\$0.11	\$0.11	\$0.00
S						
T	After tax amount		\$ 104.66	\$ 104.66	\$ 100.81	\$ 105.52
U			\$ 104.66	\$ 94.20	\$ 100.81	\$ 105.52
V			-0.82%	-12.02%	-4.67%	
W						
X	Total Taxes Paid		\$5.88	\$5.88	\$9.73	\$4.75
Y			-\$1.13	-\$1.13	-\$4.98	
Z			-19.29%	-19.29%	-51.21%	

J: Assuming 50 basis points over Treasury of 2.25%; M: Related to HIA-1 Rate - Negative number means lost against it; P: Assumes ROI of double HIA-2 coupon rate for same amount of investment net fees; R: Assumes 20% tax on return on HIA-1 and FERA and 0% on HIA-2; U: For FERA assuming straight 10% increase in payroll reduced capital by 10%

Figure 3: Repatriating \$1.1 Billion under various scenarios

			2004 Homeland Investment Act	2011 Foreign Earnings Reinvestment Act	2011 Proposed Repatriation Act per MP	
<i>Figures in Millions</i>						
A	Amount Repatriated		\$ 1,100.00			
B				<i>Low</i>	<i>High</i>	
C			HIA-1	FERA		HIA-2
D	Amount Repatriated		\$ 1,100.00	\$ 1,100.00		\$ 1,100.00
E	Amount to Corporation		\$ 1,100.00	\$ 1,100.00		\$ 1,000.00
F	Tax Rate		5.25	5.25	8.75	4.75
G	Taxes Paid by Corporation		\$57.75	\$57.75	\$96.25	\$47.50
H	Amount to Corporation after tax		\$1,042.25	\$1,042.25	\$1,003.75	\$952.50
I	SCE Bond		\$0.00	\$0.00	\$0.00	\$100
J	Bond Coupon Rate		0.00%	0.00%	0.00%	2.75%
K	Tax Rate		0%	0%	0%	0%
L	Effective Tax Rate		5.25%	5.25%	8.75%	4.32%
M	Amount saved		\$0.00	\$0.00	-\$38.50	\$10.25
N	Tax Revenue to Treasury		\$201.58	\$201.58	\$240.08	\$178.95
O						
P	Return after 10 years		\$ 1,047.75	\$ 1,047.75	\$ 1,009.25	\$ 1,055.25
Q						
R	Taxes on return		\$1.10	\$1.10	\$1.10	\$0.00
S						
T	After tax amount		\$ 1,046.65	\$ 1,046.65	\$ 1,008.15	\$ 1,055.25
U			\$ 1,046.65	\$ 941.98	\$ 1,008.15	\$ 1,055.25
V			-0.82%	-12.02%	-4.67%	
W						
X	Total Taxes Paid		\$58.85	\$58.85	\$97.35	\$47.50
Y			-\$11.35	-\$11.35	-\$49.85	
Z			-19.29%	-19.29%	-51.21%	

J: Assuming 50 basis points over Treasury of 2.25%; M: Related to HIA-1 Rate - Negative number means lost against it; P: Assumes ROI of double HIA-2 coupon rate for same amount of investment net fees; R: Assumes 20% tax on return on HIA-1 and FERA and 0% on HIA-2; U: For FERA assuming straight 10% increase in payroll reduced capital by 10%

Appendix B-2: COST BENEFIT ANALYSIS OF \$10 MILLION SCE BOND

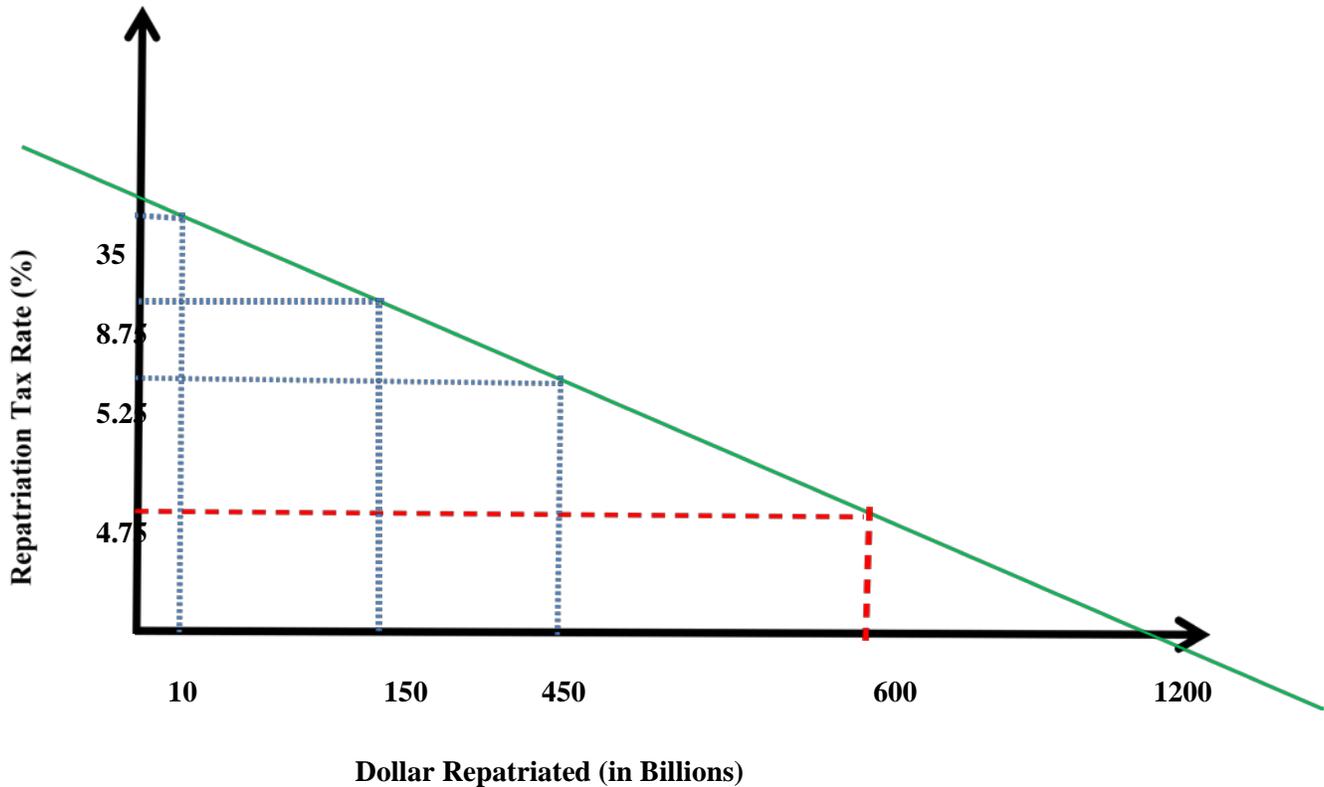
This analysis did a simple cost-benefit related to a \$10 million investment in a U.S. focused Sustainable Community Energy Bond over a 10-year period. It identified the cost of the bond at Period 0 to be the only cost. It did not reflect any presumed loss of tax revenue during the subsequent years but instead assumed that the \$10 million would have stayed offshore and found other uses that did not require them to pay taxes to the U.S. government. The Benefits assumed include job creation, health and productivity benefits associated with environmental/social investment returns, and U.S. government costs reductions for certain entitlements. \$150 million benefit over a decade can be achieved with a \$10 million investment today for a NPV of \$140 million at a generous 5% discount rate. Even at 10% and 20% rates CBA is still positive.

P.V.=Present Value **10-year SCE Bond**
NPV = Net P.V. **Cost-Benefit Analysis**

	Costs	Benefits
Period 0	\$10	\$5
1	\$0	\$8
2	\$0	\$10
3	\$0	\$13
4	\$0	\$17
5	\$0	\$18
6	\$0	\$20
7	\$0	\$23
8	\$0	\$27
9	\$0	\$29
10	\$0	\$33
Discount Rate:	<i>i=Opportunity cost of capital</i>	5%
P.V. of Costs:	$X/(1+i)^n$	\$ 10
P.V. of Benefits:	$X/(1+i)^n$	\$ 150
NPV:	<i>PVB-PVC</i>	\$ 140
Benefit Cost Ratio:	<i>PVB/PVC</i>	14.950608

Appendix C: JOB CREATION POTENTIAL WITH HIA-2

FIGURE 1: Capital Demand Curve with HIA-2 (Sustainable Energy Bonds)



The information presented in this appendix looks at the job creation opportunity associated with the concept of the Sustainable Energy Bond through the proposed HIA-2. Figure 1 (above) illustrates a potential demand curve for repatriation of the \$1.2 trillion held abroad by U.S. corporations. It charts the corresponding repatriation tax rate along the vertical axis. The amount of money repatriated is along the horizontal axis. In this example we assume that a very few people might bring the money back to the states at 35% tax rate; however, we assume that corporations are much more interested in bringing funds back at lower tax rates. We are assuming that the lower the rate for corporations, the better, even if there are certain strings attached to the return of those dollars. The time period covered in this model, regarding

repatriation of funds is 12 months (1 year), however, we will look at the job creation potential of a decade (10 years), the length of the proposed Sustainable Community Energy Bond.

In this example, we estimate that about \$10 billion would be repatriated under the current rate of 35%. These would likely be corporations that do not qualify for the tax incentive based on some specific factor. This demand curve estimates a return rate of \$150 billion at 8.75%, \$450 billion at 5.25%, and \$600 billion at the 4.75% rate. I will note that the middle figures could be different depending on whether companies felt like they would rather just take the 8.75% rate which simply requires that they do not reduce their payroll by more than 10% whereas the 5.25% rate requires that they add to their payroll. Depending on a company's growth plans, they could decide that either of those rates works for their situation better. But for this exercise, let's focus on the Sustainable Community Energy Bond rate of 4.75% and assume that roughly half the dollars are repatriated at that rate, since the earlier model (Appendix C-1) showed that a corporation could actually achieve superior final return over the life of the SCE Bond versus investing elsewhere.

So assuming that \$600 billion was returned under the SCE Bond scenario, it would create a \$54.5 billion "fund" to invest in Sustainable Community Energy development (i.e. investing in energy-efficient infrastructure, housing, small business, etc). Figure 2 of this appendix identifies what the potential for job creation is using the \$600 billion figure. This model estimates that only the SCE Bonds are invested into projects that will lead to job creation. It makes the assumption that the other \$519.5 billion that corporations retain after the roughly \$26 billion they pay in taxes to the federal government will be paid out in shareholder dividends at the same 92% from 2004. It then assumes that those shareholders will pay the 15% tax on those dividend payments and then stick their remaining capital under their mattress. It assumes the corporations

would take the other 8% not paid out in dividends and either pay bonuses to executives, pay down debt, or simply put the money into a domestic bank or cash equivalent. This model also assumes that after the U.S. Treasury receives its full tax receipts, the \$26 billion from corporations at the 4.75% tax rate plus the 15% tax from all dividends paid out, that they will have roughly \$97.6 billion in tax revenue. This model assumes that the Treasury uses those funds to pay down the U.S. debt, but that the reduction has no measurable impact on consumer demand. In other words it assumes that the only money focused on new job creation would be the \$54.5 billion in the SCE Bond Fund in Year 1.^{xiii} The job creation estimate is as follows:

FIGURE 2: Jobs Created

Other Costs:	\$80,000,000	
Fund:	\$54,545,400,000	\$1,636,362,000.00
Cost Per Job:	\$75,000	4,363.63
	<i>Jobs Created</i>	<i>Jobs Value in Dollars</i>
Period 0	709,817.47	\$54,545,400,000.00
1	237,788.85	\$17,834,163,984.00
2	79,659.27	\$5,974,444,934.64
3	26,685.85	\$2,001,439,053.10
4	10,007.20	\$750,539,644.91
5	3,752.70	\$281,452,366.84
6	1,407.26	\$105,544,637.57
7	615.68	\$46,175,778.94
8	269.36	\$20,201,903.28
9	117.84	\$8,838,332.69
10	53.03	\$3,977,249.71
Total	1,070,174.51	\$81,572,177,885.68
Discount Rate	5	

^{xiii} All calculations in this section related to size of SCE Bond fund, associated corporate revenue and taxes were calculated using the same model and formulas from Appendix C-1.

As noted by Figure 2, it is estimated that the SCE Bond fund would create over 709,000 jobs in the first year and over 1 million jobs over the course of the decade that the SCE Bond is in place.

These jobs figures in Figure 2 were calculated using the following formulas.

Figure 2 Data:

Other Costs: \$80 million – this figure is not relevant to the jobs calculation. It is the estimated cost of loss tax revenue as estimated by several non-partisan agencies related to tax repatriation. It will be referred to later in the appendix when we look at a Cost-Benefit Analysis.

Fund: \$54.5 billion – calculated based on the \$600 billion repatriated funds under proposed HIA-2. $\{Fund = \$600B * 0.090909\}$

The \$1.6 billion figure beside the total fund amount is the management fee of the repatriated dollars to deploy them into investments. Since these funds would be managed by private sector investors and faced with the greater challenge of investing for social, environmental and economic returns, it identifies 3% as a management fee. $\{Fee = Fund * .03\}$

Costs Per Job: \$75,000 (CPJ) – this figure is used as an estimate of what a job is worth. This figure is taken directly from the FERA bill proposed by Senators Hagan and McCain as the calculation agreed upon as the value of a single job.

The 4,363 number beside the \$75,000 figure is an estimate of how many jobs would be created by the firms that would manage SCE Bond capital. It estimates that the Fund Fee would create a number of jobs to manage it. To create those jobs, this model estimates that it costs 5 times the average cost per job to create one of these capital management positions. $\{Capital\ Management\ Jobs = Fund\ Fee / (Costs\ Per\ Job\ x\ 5)\}$

Jobs Created: These figures represents calculations that take into account the amount of investment funds available, the cost per job to be created, the estimated resulting salary, and consumer purchasing power related to those figures, corporate investment and an estimate of what impact that will have on job creation. The formula attempted to capture the dynamic nature of how markets work where increases in disposable income results in increased purchasing from consumers that creates jobs and further demand and also entices investors and companies to invest capital in fulfilling that growing demand as it increases, with more and more investors getting in the market as it grows (the nature of bubble economies).

Jobs Value in Dollars: This figure simply takes the jobs created amount and multiplies it times the value of a job $\{Jobs\ Value\ in\ Dollars = Jobs\ Created\ x\ \$75,000\}$

Period 0: This number assumed that all the money in the SCE Bond funds would be deployed during the first year towards job creation. This figure deducts the management fee from the fund amount and then divides that figure by \$75,000 and then adds the 4,363 jobs added by management of the fund for a total of 709,817 jobs. $\{Period\ 0\ Jobs\ Created\ (JC) = Total\ Fund\}$

Amount minus Management Fees divided by Costs Per Job Average plus Management Jobs Created}. Total value of those jobs would equal the Total Amount of the Fund in Period 0.

Period 1: This Jobs Created figure came from calculating that 709,817 jobs from Period 0 were actually created with 75% of the total cost of jobs being salary with the remaining 25% being benefits. $\{Job\ Salary\ (JS) = 0.75 \times \$75,000\}$. This returns an annual average salary of \$56,250 for those created in Period 0 (folks could have made more or less than that amount).

I then took the \$56,250 and assumed that roughly a third could be used to increase purchasing power. $\{Increased\ Purchasing\ Power\ (IPP) = 0.33 \times \$56,250\}$. That total is \$18,750. This doesn't necessarily mean that people would have that much disposable income. It instead assumes that in the current economic environment there may be bills that just don't get paid or purchases of essentials that were not executed during the down economy. There would be some funds that could be available for wants. But under this scenario, there is not much money for saving or necessarily paying down debt, though the hope would be that job creation would help to slow down the mortgage crisis.

I then took that \$18,750 and multiplied it times the number of jobs created (i.e. people to spend). $\{New\ Aggregate\ Purchasing\ Power\ (NAPP) = \$18,750 \times 709,817\}$. That gave me a total figure of \$13,309,077,600 reflecting the additional spending power (capital going into the economy) at aggregate.

I then divide that NAPP figure by the total cost per job to give me a Preliminary New Jobs Created (PNJC). This is straightforward math, like the original calculation. $\{PNJC = \$13,309,077,600 / \$75,000\}$. This figure estimates that just based on the previous formula and the increase in aggregate purchasing power by those now working, it would create an additional 177,454 jobs. I then assume that the increased purchasing power of the workers will send a signal to the markets that consumer demand is increasing which would result in current corporations spending capital to hire new employees so that they can increase production. I calculate that investment at enough to create an additional 34% jobs since various corporations would increase their payroll to respond to the increased demand. Not every firm would be able to capture that demand, however, every firm would have the desire to invest to capture it. That additional corporate investment in jobs is reflected in a formula that multiplies the preliminary new jobs times 34%. $\{Corporate\ Investment\ New\ Jobs\ Created\ (CINJC) = PNJC \times 0.34\}$. This would add an additional 60,334 jobs. We come to a Final New Jobs Created (FNJC) for the Period by adding preliminary new jobs to corporate new jobs created. $\{FNJC = PNJC + CINJC\}$. This results from totaling the 177,454 created from increased spending with the 60,334 jobs from corporate investment creating 237,788 jobs in the second year.

Each Period following utilizes the same formula, utilizing the job creation from the previous period to identify the increase purchasing power of the current period and the resulting job creation and the corporate investment attached. Each Period values the jobs created at the original \$75,000 per job expressed at the beginning.

Note that I use the 34% of the jobs created by increased aggregate demand in Periods 1, 2 and 3. I use 50% in Periods 4,5, and 6. I use 75% in Periods 7,8, and 9. I then use 80% in Period 10. As mentioned earlier, those figures represent the increased investment from the private sector that usually follows growing consumer demand. The Periods 1-3 assume that corporations are

the ones increasing their investment and job creation to respond to increasing consumer demand. Periods 4-6 reflects an increase by corporations but also by earlier stage companies desiring to succeed as entrepreneurs. Periods 7-9 reflect corporations, startups, and also capital investors wanting to be a part of the expanding marketplace and investing based on watching the trends. Finally, Period 10 is the period where capital is flowing from a lot of different areas even from investors who do not fully understand the intricacies of the market. These reflect the increasing percentages that I used.

Therefore, the formula that I use for these Final New Job Created (FNJC) calculations is:

$$FNJC = (((CPJ \times 0.75) \times (1/3) \times FNJC \text{ from Previous Period})/CPJ) + (((CPJ \times 0.75) \times (1/3) \times FNJC \text{ from Previous Period})/CPJ) \times \text{Demand Induced Job Creation Investment Rate for that Period}$$

The model estimates that from a one-time investment of \$54.5 billion as part of the SCE Bond, that over an 11-year period that over 1 million jobs would be created, with 89% of those jobs being created in the first 2 years (nearly 950,000 jobs) at an aggregate value of \$81.5 billion.

This is not counting any other investments in job creation nor does it estimate if U.S. corporate profits continue to rise and SCE Bonds were sold regularly and annually.

Just for comparison, if the entire \$1.2 trillion overseas was repatriated utilizing HIA-2 model, it would create a SCE Bond totaling \$109 billion. That fund, invested by the private sector, would create 2.14 million jobs over its life with nearly 2 million of those coming in the first two years for an aggregate job value of \$163 billion dollars.

Now returning to the original estimates that would return 50 cents of every dollar back to America under the HIA-2 model (\$600 billion) that I just estimated would create over 1 million jobs over the life of the Bond, I would like to run a basic Cost-Benefits Analysis (CBA) on it. Including the “Other Costs” such as the \$80 million that it is estimated that repatriation would cost the United States government, I have run a CBA in Figure 3 below.

FIGURE 3: Cost-Benefit Analysis

	Costs	Benefits
Period 0	\$54,625,400,000	\$54,545,400,000
1	\$0	\$17,834,163,984
2	\$0	\$5,974,444,935
3	\$0	\$2,001,439,053
4	\$0	\$750,539,645
5	\$0	\$281,452,367
6	\$0	\$105,544,638
7	\$0	\$46,175,779
8	\$0	\$20,201,903
9	\$0	\$8,838,333
10	\$0	\$3,977,250
Discount Rate:		5%
P.V. of Costs:		\$ 54,625,400,000
P.V. of Benefits:		\$ 79,649,617,871
NPV:		\$ 25,024,217,871
Benefit Cost Ratio:		1.458105897

The CBA calculates all of the costs in Period 0 by adding the amount invested in the SCE Bond Fund with the loss tax revenue identified in the “Other Costs” line. Using the “Jobs Value in Dollars” totals from Figure 2, and a discount rate of 5%, the analysis states that such a scenario would have a Net Present Value of over \$25 billion dollars and return a positive Benefit Cost Ratio which illustrates this as a good investment. Therefore, if U.S. based corporations can be incented to bring back a majority of their funding via a Sustainable Community Energy Bond, then not only will they see a superior investment as reflected in Appendix C-1, but the U.S. will create a substantial job creation engine that continues to pay dividends to the American people. This CBA doesn’t even take into account the increase in payroll and income tax revenue for the U.S. government, reduction in social service costs, or average individual asset increase.

**Appendix D: LINKING THE SUSTAINABLE HOUSING MARKET TO A
TRADEABLE REPATRIATION CREDITS MARKET**

I wrote earlier in this paper that although identifying a short-term policy to repatriate dollars to the United States was important, a long-term solution was critical. The Homeland Investment Act of 2004 that allowed U.S. based companies to repatriate over \$300 billion was just seven years ago and those corporations, and others, have already accumulated another \$1.2 trillion in unused capital offshore. I have said several times that this problem is not going away. As the global middle class expands, so will the balance sheets of American based companies who serve those markets.

I offered some thoughts throughout this Masters Project (MP) of ways to incent those dollars to return to America, while also addressing several of our country's most pressing problems such as competitiveness, unemployment, and a need for clean energy investment. However, a more thoughtful approach than all-out, drag-out fights between corporate America and the American government every few years should be sought. The Obama Administration and corporate leaders all agree that some level of comprehensive tax reform is necessary. It would be during that comprehensive reform that taxes on repatriated dollars would be handled. However, I am not sure that is the best way to address the repatriation challenge. I believe that foreign taxes on foreign profits of U.S. based corporations should be decoupled from domestic taxes of those same corporations.

Certainly corporations want that tax rate to be as low as possible. Yet, there is much truth to the fact that capital seeks to find the best use of itself at any given time wherever that place is. The fact that capital accumulates, or is invested, offshore for a period of time before desiring to come

home is a reflection of the opportunity it sees. Corporations should be able to bring capital onshore with a level of tax that allows them to feel like it is worth it. However, the federal government cannot simply allow the capital to return at no cost especially when fewer and fewer dollars are creating jobs and investment in America. Just as this MP suggests that the HIA-2 model of the Sustainable Community Energy Bonds could serve as a short-term compromise for the federal government and corporations for the repatriation of the \$1.2 trillion, I think they ought to also seek a long-term solution that both stakeholders can live with. I don't think such a compromise is best done as part of comprehensive tax reform legislation that may or may not happen in the foreseeable future.

Instead, the federal government should see that there is something dynamic about the global profit trends for American companies and seek a way to link our continued prosperity with theirs. This will entail some creative and innovative thinking. It will require a win-win strategy where both sides are willing to compromise on the outcomes. As corporations continue to expand, I do not think they will naturally seek to reinvest in America, so I do believe that the U.S. government should find a way to link some portion of the capital that returns to America to job growth and economic development. Most of you know by now that my preference is to sustainable community development that not only creates investment in challenging economies but also drives America to the front of the green economy. Still, the government must also allow the corporations to return capital in ways that give them a great deal of freedom for where they deploy it – even if that means to stock buybacks, dividend payments, or executive compensation. However, the government must recognize how valuable a tool the tax-rate connected to foreign profits is and not lose an opportunity to leverage it for American prosperity.

I began this document with an analogy of how everything looks like a hammer to me and every situation an opportunity to drive the sustainable community nail forward. This idea of a long-term solution to the repatriation problem is no different.

Several years ago, in early 2009, as the climate change discussion was at its height, I was asked to travel down to Atlanta to speak with a group of leaders about assisting Historically Black Colleges and Universities (HBCUs) in gaining access to capital for climate change research and projects. It was just an exploratory meeting, held in a discrete conference room over spring break on the campus of Spelman College, the all-women's college founded in 1881 for the education of black girls, and one of the few HBCUs at the time doing significant green renovations and construction on campus.

I was asked, as were the other few attendees, if I had any ideas related to ways that HBCUs could solicit funds from the federal government to support work related to climate change. The idea floating around the room, at that time, related to requesting a portion of any federal funds earmarked for climate change at the same proportion of the black population. For example, the black population makes up 13% of the U.S. population, therefore, HBCUs should receive 13% of the funds. I recognized the logic in the argument, but was not much interested in discussing quotas. Instead, I offered another suggestion with another line of reasoning.

I suggested that the conversation be framed around carbon emissions. At the time, a cap-and-trade legislative policy seemed inevitable. I made the point that in a carbon constrained world, where emitting low amounts of carbon had value, that the communities that should be rewarded were those that emitted low amounts of carbon. I said that the communities fitting that description were largely low-income, poor communities. They had not necessarily been low

carbon emitters on purpose, but instead because they had not been able to afford large carbon emitting lifestyles. I indicated that low-income citizens lived in smaller houses, brought less consumer goods, and often traveled using public transit. I suggested that in a carbon constrained world, we would want to reward that behavior and that in such an environment, the low carbon lifestyle of necessity might be able to be turned into an asset for those citizens. There had been great talk about high emitting corporations versus low emitting corporations and how a cap-and-trade model would turn those who figured out how to emit less into cash cows as they sold and traded their pollution credits and permits with the high emitters. I reasoned that if the market could find a way to put a value on corporate emissions, couldn't it do the same for individual emissions (within reason).

I then reminded the small group of leaders in the room, that nearly all HBCUs resided in the middle of low-income communities, usually African-American, because that had been their consumer base for years. I wondered out loud how transformative it would be if those living in those communities could turn their low carbon lifestyles into assets. I then suggested to those in the meeting that a better strategy might be for HBCUs to frame the forthcoming transition in such a way and to identify themselves as the most logical leaders of ensuring communities around them benefitted from a low-carbon world. I saw this as a great way to blend social, environmental, and economic return on investment.

In 2011, we are certainly in a much different environment. But though, cap-and-trade legislation has not passed and is unlikely to pass any time soon, I have never forgotten that question of whether a society that values low carbon emission for its corporations can find a way to also reward its individuals for the same action –whether it is by choice or by default. This returned me to my earlier sentiment, that in order for society to benefit the most people, we have to find a

way to either suppress the resource per individual amount that we consume, or create renewable systems. In this situation, we would want to encourage people to live within whatever level of satisfaction they seek, which does not necessarily mean that when they become wealthier they have to buy bigger homes or more cars.

Revisiting the Housing Market

The U.S. housing stock accounts for 22% of carbon dioxide emissions in America, which totals over one billion tons annually.²¹⁰ This is a significant number and one that we as a country should want to reduce. Energy-efficient housing at a certain level is becoming standard. However, the recent challenges in the housing markets have created a backlash from some homebuilders who claim stricter state regulations on the efficiency of housing will make it even harder to sell homes. In North Carolina, in 2010, as the state explored increasing the housing codes to mandatory 30% efficiency rates beyond current building codes, homebuilders pushed back against the potential policy. The homebuilders association later agreed to a 15% increase above the standard.²¹¹

I, like many other government officials and general citizens, have spent a lot of time wondering if there were any way to stop the decline of job losses, foreclosures and housing prices. I spoke early in this MP about the devastation property values was having on tax revenue for local governments, particularly those local governments and communities who are most vulnerable. Though America has a great many challenges, finding a way to increase home values would go a long way in fixing them. Most people do not believe that any recovery can come without a rebound in real estate prices.

I thought back to my idea from several years ago where low-emitting households might be able to aggregate and sell their emissions credits for profits and lamented at the lack of climate change legislation – particularly cap-and-trade – that might have opened the door for such a process. Since that time, organizations like Enterprise Corporation have worked towards a market that would allow their properties to generate carbon offsets that can be sold in the open marketplace, which had been my original thinking. Now I began to think of a different way to turn a low-emissions lifestyle into wealth.

Tradable Repatriation Credits

Then I thought about all of these U.S. corporations desiring to return their profits from overseas at a reduced tax rate. And as I was trying to think of short-and-long-term solutions to the repatriation challenge, another thought came to me. In the Sustainable Community Energy Bond model, there was a 1-to-10 tradeoff between the amount of funds invested in a bond and the amount of funds allowed to be repatriated. For every \$1 a corporation was willing to invest in a SCE Bond, they could repatriate \$10. When thinking about it in a different way, a corporation was spending \$1 to buy a \$10 repatriation credit or permit. However, in this situation, the corporation was also getting that \$1 back in the future with an associated return.

In any repatriation scenario, it is that “credit” that the corporation seeks. However, under every scenario thus far – HIA1, FERA, and HIA2 – the time for repatriation is bounded within a one-year time frame. Therefore, a corporation is getting a window of one year to return their funds at the reduced rate when it is decided on. This one year is quite understandable in a time of record unemployment and great need, however, on an ongoing basis it is more beneficial for the corporation to be able to repatriate dollars at the lower rate they have gained. If the U.S.

government granted corporations another tax repatriation holiday in 2012, and all \$1.2 trillion was returned to the U.S., it would not likely be returned because those corporations planned to invest or deploy it all, but primarily so that it could be returned at the lower rate during the window of opportunity. It is likely that many companies do want to buy shares back, payout dividends, or pay down debt and not very likely they plan to hire staff. The tax rate of 8.75% might be low enough that the corporate leaders determine that they come out with a net benefit by not reducing their payroll because of the tax rate it would trigger. So holding on to employees for a period longer than originally anticipated would still net them benefit. However, it is unlikely to lead to any new hiring, notwithstanding those who were already on that path. This is obviously why I am proposing the SCE Bond to have capital that private sector managers can deploy into opportunities that create jobs, as the corporations do what they will with their funds. So I still favor a HIA-2 like solution to returning the \$1.2 trillion that sits overseas in 2011. However, there is another way that solution could be achieved.

In Appendix D, I modeled an estimated demand curve for the repatriation of overseas capital at various tax rates. I suggested that \$600 billion repatriated under HIA-2 would create a \$54.5 billion fund that could be invested to create 1 million jobs over a decade. Under that scenario, a corporation would invest a \$1 in the bond and return \$10 to America to do what they deemed desirable with the funds. Thus \$600 billion would return to American corporate coffers and \$54.5 billion would go into Sustainable Community Energy Bonds.

However, let's imagine there was a different way to conduct this transaction. Imagine that instead of a corporation spending \$1 on a bond to bring \$10 from abroad today, they were spending \$1 on a bond to purchase a "credit" to bring \$10 from abroad within the next 2 years, 3 years, or even 10 years, which is the life of the Bond. In this scenario, \$600 would still be

allowed to be repatriated at the 4.75% rate; however, it would not have to return immediately. They could bank their credits. The \$54.5 billion SCE fund would still be created for immediate deployment and with the same return on investment properties, but the corporations would have credits for the amount they desire to repatriate.

Undoubtedly, a large number of corporations would repatriate those dollars to do exactly what they desire to do with them right now regarding buybacks, dividends and debt. This would ensure that the U.S. Treasury receives their tax revenue as companies bring their capital home and pay Uncle Sam 4.75% of it. This model of buying bankable repatriation credits through impact investing could lead to at least two benefits.

One benefit would be that it could lessen the demand on the dollar. One of the concerns stated by scholars about another repatriation holiday, particularly of the current magnitude, is that it would cause all of these major corporations to convert their foreign currency to dollars. The conversion of those currencies for dollars would in turn drive up the price of dollars and strengthen it against other world currency, resulting in negative impacts on American exports that would nullify whatever the benefits of the repatriation holiday was. In a scenario where the corporations buy “credits” without having to repatriate the other dollars would limit the amount of currency needed to be converted and therefore not negatively impact U.S. exports.

The second benefit that this strategy for repatriation credits could have is that it could create a dynamic market for tradable repatriation credits. This market could in turn be linked to the U.S. housing market in a way that helps the latter to rebound. I will explore that concept next.

Concept of a Carbon Emissions Cap-and-Trade Repatriation Program

Mitigation versus Adaptation

There are two strategies for responding to climate change. One strategy is through mitigation, which attempts to keep it from happening. A second strategy is through adaptation, where it is accepted that the climate change harm will happen, so the goal is to avoid the harm. The Carbon Emissions Cap-and-Trade Repatriation Program explored in this text is a focus on mitigation, seeking to limit climate change by reducing carbon dioxide emissions through a market-based mechanism.

Potential Policy Framing

In the long-term recommendation category of this MP, I stated the need for a policy that could address repatriation moving into the future. The policy could actually retain the Foreign Earnings Repatriation Act (FERA) of 2011 moniker. However, it could be expanded to take into account different strategies for repatriation. The Act could tout a goal of creating sustainable communities while providing corporations with a reliable means of repatriating foreign earnings. Essentially the Act would outline the way “Carbon Emissions Repatriation Credits” could be acquired. The sources of the credits could be broken into Classes such as I, II, III, and so on.

Class I Credits could include those credits acquired through indirect or direct investment into Impact Investing funds, such as the SCE Fund. This model could continue to have a 1-to-10 ratio. The Impact Investing funds would have to be certified to qualify for repatriation credits. A corporation investing in a Bond would automatically receive the credits and have the ability to bank, trade or use those credits for the length of the bond.

Class II Credits could be defined as those attained by Residential sources. This statute would identify what residential resources would qualify for credits. These sources might include single or multi-family owner occupied housing or there might be a way to also include rental units such as commercial apartments. A structure could qualify for carbon offset credits based on its size and emission status that could then be sold or auctioned into a marketplace as repatriation credits.

Class III Credits could be categorized as something like Mobile sources. These credits might be earned based on how individuals travel. For example, someone might earn credits at the point of sale for public transit passes whether it be buses or trains. Another way that might be captured for credits is the number of vehicle miles traveled annually based on annual car inspections and vehicle registration. The goal would be to find a way to determine the proper way to monetize the carbon emissions reduction based on the reduction in vehicle miles traveled. Similar to the residential credits, these credits could be aggregated and sold on a repatriation marketplace.

Class IV Credits could be credits that are earned based on consumer patterns. For example, similar to the loyalty rewards cards that many retailers, particularly grocers, utilize to track what consumers buy, a systems could also track the emissions of the products that individuals buy. Those individuals might earn credits based on those purchases. These credits could be sold into the repatriation marketplace.

This model offers the requisite ownership rights needed to make the credits valuable since the credits would be generated at the household level. In addition, this market could operate efficiently enough to ensure low transaction costs. These are all concepts, so would certainly have to be better fleshed out, but the idea is that if there was a way to create a means of

generating “Carbon Emissions reducing Repatriation Credits” then it could spark an entirely new marketplace.

Criteria

In order to make any such market function from a practical standpoint, a lot of questions would have to be answered. Such questions include how broad of coverage regarding greenhouse gas emissions are we seeking to cover, how will we measure the emissions, is it administratively feasible, and what is the point of regulation. These frame a few of the considerations that must be taken into account and certainly won't be solved or satisfied in the brief introduction of this idea at the conclusion of this Masters Project.

Breadth of Coverage

The initial focus of this policy will be on residential sources of carbon emissions. With the introduction of higher standards of energy-efficiency for the residential marketplace over the last decade, this is a market that has already received a great deal of attention. Many homes now are built to Energy Star standards or are LEED certified. In addition, the U.S. weatherization program has been in place for many years now and the housing retrofit industry already exists. By focusing on a market that is already moving towards maturity, it will make any such concept as this more feasible. Therefore, focusing on the reduction of carbon emissions from the U.S. housing stock could serve as the initial focus.

Measurability

The measurement of the carbon reduction program would be critically important but incredibly challenging. It would have to begin with the concept of a zero emissions house. Though I am

not a housing scientist or residential emissions expert, I would suspect that there is some way to accurately measure the emissions of a home such as its heating and cooling systems, its size, and other factors. In order to make something like this work, there would have to be an agreed upon standard on what characteristics constitute a zero emissions house. When that standard model is quantified and agreed on, then it would serve as the baseline for the program. Any residential unit that desires to be a part of the program would be measured relative to that standard model home. The credits that would be earned would be done so relative to a home's carbon emissions compared to the base model. There could likely be a reward system based on those that equal the zero carbon measurement and the credits would increase as homes reduce their emissions based on that standard.

For example, if it is deemed that a 2,400 square foot home with certain characteristics is quantifiably a zero emissions home, the owners might earn a monthly credit of 10 units. Another homeowner who lives in a 2,000 square foot home with the same characteristics might be calculated to be 20 percent more efficient than the standard – they would earn 12 units of credit a month. Likewise, someone living in a 1,200 square foot home might be deemed as 100 percent more efficient than the standard and earn 20 units of credits a month. Though the standard would be a zero emissions house, the difference in the credits earned could be based on the fact that it took less wood or materials to build the smaller home, or the wood was harvested from a sustainable forest, or any number of factors. Therefore, it would be a complex formula that determines what the points earning total of each home is.

For those who are keeping track, yes, this is likely to be a progressive model. That means that based on this model, lower income citizens are likely to earn the most credits in this system – assuming there homes can be fitted or retrofitted with modern technology to make it certifiable.

If there is a market for the earned credits, and the proper intermediaries for moving those credits into the marketplace, the expectation and hope would be that the financial sector would deem those credits to be sufficient assets to collateralize a retrofit loan of some sort.

However, this would not be a market that penalized the wealthier segment of the population. In this model, if Bill Gates, the co-founder of Microsoft and oft-times the richest person in the world, wanted to move into a 1,200 square foot home and certify in this marketplace, then his home would qualify for the exact same units of credits as Mr. and Mrs. Smith who have a household income of \$45,000 a year and live in their own 1,200 square foot home. In this sense, it would be an individual's choice as to whether they want to earn credits in the marketplace – it would not be based on other factors. Thus wealthier citizens would not be penalized in such a system. For example, someone living in a 10,000 square foot home that is a major emitter of carbon dioxide would not receive a bill each month and would not be required to purchase “offsets” of any kind. It would only be through their loss opportunity cost that they are “penalized.” But that would be an individual choice. This system is set up to be a “carrot” and incent the behavior, and not a “stick” that regulates it.

In order to ensure that the system works, the policy that drives it would have to determine what is in and what is out. It would need to have certain caveats like ensuring that the house that is certified is owner-occupied and residential. This will keep the system from rewarding individuals who might live in a 5,000 square foot house that would not qualify for certification, but have a second home that would qualify that they use as a vacation home or rental property.

As it relates to how the number of credits that are calculated and available in a given year (the “Cap”), that is yet to be determined. In this sense, there might be a number of ways to approach

this situation. One way would be to simply award credits to any and everyone who qualifies under the program with no limit on the number of credits that are earned. Obviously, to make the market work correctly, the conversion of those units of credits to the repatriation market would be a key factor in how successful it is. Furthermore, under this model, the assumption would be that by incenting homes to be more efficient then we will be reducing aggregate carbon emissions which would be measurable.

In this sense, the program would simply raise the standard of efficiency needed to qualify for credits at some regular interval. This adjustment of standards would likely not be annually since it would take a little while for the Best Available technology in the marketplace to go from idea to market to help with the efficiency. However, that same 1,200 square foot house that qualified for 20 units of credit a month in Year 1, might see those credits depreciate in Year 2, Year 3, and so on, as the technology that drives that efficiency depreciates and relative to the standard declines in the value it presents the homeowner and society. It would then be expected that the homeowner would upgrade to new technology that would reduce the home back to a certain earning potential.

Another process that could be explored would be that of putting a cap on the overall carbon emissions of the residential marketplace based on the current one million tons of emissions on an annual basis and use that as the baseline. However, this is likely a more difficult model to make work. In this second scenario, essentially every house in the United States would have to be measured versus the opt-in voluntary nature of the first scenario.

By focusing on the first scenario, where houses would be measured against a standard and rewarded based on that standard, it would presumably still lead to measurable carbon emissions

reductions. As more houses voluntarily enter the marketplace through retrofitting or new construction, there should be long-term atmospheric benefit. It would be expected that residential emissions is a mature enough market to accurately measure at that household level.

Administrative Feasibility

It is well noted that tracking emissions from small and diffuse individual sources such as houses and vehicles can be challenging. For example, tracking the emissions of every single residential household would be possible, but administering those credits into an emission trading system may be unreasonably expensive. The transaction costs would be prohibitively high for the average engagement of tracking, trading and ensuring compliance. It is likely that any cost-benefit analysis of an emissions trading system that does not account for the transaction costs is not likely to be net positive. However, there are several ways that this could be addressed in this proposed system. For one, the point of regulation would be at the household level. Similar to the way individuals must have vehicle emissions testing annually to stay in regulatory compliance, a house that has been certified to be on the emissions marketplace would have the same requirement. Just as the state currently monitors the vehicle compliance, each state could also monitor the housing compliance marketplace. Vehicles are currently taken into Points of Service (POS) to have those emissions tests conducted. These POS may include your neighborhood Jiffy Lube or nearby car dealership. In the housing situation, inspectors could come out to homes annually and run diagnostic tests to measure the efficiency of each household (as it relates to certain measurements) to ensure that it still qualifies for credits and determine how many credits. Technology could capture the data and report it to a system at the state level that captures the information and certifies it for compliance. Those credits could then link up into a larger system that converts them and allows them to be easily aggregated, traded, and

monitored and ultimately fed into the repatriation marketplace. The inspection process would not be much different than what happens currently when a home is inspected prior to sale or when a house is given an energy audit.

At the federal level, U.S. HUD would serve as the regulator of this program in partnership with EPA. Responsibilities would be determined based on the exact setup of the program.

Repatriation Emissions Trading

You may be wondering what any of the previous information has to do with repatriation credits. Well, if a unit of emission-reducing housing credits can be converted into a unit of repatriation credits that U.S. based corporations can use to return overseas profits to America, it could create quite a dynamic marketplace. There would have to be some determination of what the conversion rate is, but that is something that could theoretically be calculated. An intermediary could aggregate the credits on behalf of the homeowners (through some sort of account) and sell them into a conversion marketplace – perhaps to fund managers or others. There would be much similarity to tax credit syndicates and situations currently in place (new market tax credits, low-income housing tax credits, energy credits, etc.).

Once the household emission credits are converted to repatriation credits, they can be sold to corporations who are in need of returning capital immediately or sometime in the future. Those credits could be banked, traded or sold. The life of the credits could be based on the structure that generated them. For example, the zero emissions house might produce credits that have a life span of 2 or 3 years, whereas the house that is 50 percent more efficient than the standard house might generate credits that have a life of 5 years.

In regards to creating a robust marketplace for the housing-generated repatriation credits, the key will be in making them valuable to corporations seeking to repatriate profits. The credits could very well be called permits (permits to repatriate dollars at a certain rate). The tax rate that the capital is allowed to be repatriated at could be based on the number of credits accumulated by a corporation. For demonstration purposes only, let's say that a corporation buys a single unit of repatriation "credit/permit" from the marketplace. For that one credit the organization is allowed to repatriate \$1 worth of foreign currency at a 25% tax rate. Therefore, that corporation could return that \$1 home and keep 75 cents and pay the U.S. government 25 cents. However, if that same corporation were in possession of two credits, they could repatriate \$2 worth of foreign currency at that same 25% tax rate. In this scenario, the corporation would return that \$2 home, keeping \$1.50 and paying the U.S. government 50 cents. Alternatively, that corporation could decide to use those two credits to return just \$1 at a lower rate of 20%. This would mean the corporation would retain 80 cents and pay the government 20 cents as funds are repatriated. This model could continue with corporations being allowed to return capital at a lower rate based on what multiple of the credits they own. Perhaps four credits per \$1 repatriated would allow a corporation to repatriate at 15%, eight credits would allow repatriation at 10%, and sixteen credits would allow the foreign capital to repatriated at a 5% tax rate. Therefore, if a corporation had accumulated sixteen credits, they could utilize those credits to return \$16 to the U.S. at the 25% rate – meaning they would return with \$12 in their corporate coffers and pay the federal government \$4. On the other hand, they could opt to repatriate \$1 and keep 95 cents while paying a nickel in taxes. Perhaps there would even be a model that takes the effective tax rate down to zero (32 credits = 4%; 64 credits = 3%; 128 credits = 2%; 256 credits = 1%; 512 credits = 0%). Thus, if a corporation had accumulated 512 credits, they could repatriate \$512 at the

25% tax rate, or they could trade in all 512 credits to repatriate \$1 worth of foreign currency tax free.

This model would incent corporations to acquire as many credits as possible to reduce their tax liability. Since there would be limited credits generated in the market, those credits that are generated would be extremely valuable. As long as a corporation was able to acquire credits at a price that was less than the offsetting tax costs, there should be a market for them. As corporations need the credits for repatriation decisions, they could sell or trade others for them; or they could bank the credits and wait until they need them, or sell them on a bigger market. This should make those credits a hot and valuable commodity.

Housing Example

To give the reader a short and simple example of how such a system might work, I will give the following illustration:

Mr. and Mrs. Smith are a working-class couple living in Durham, North Carolina where she is an educator and he is a small business owner. They have been married for 15 years and have two children, a 12-year-old daughter in seventh grade at the local middle school and a 10-year-old son in fifth grade at the local elementary school. The Smiths live in the same home that they purchased a year after they were married. Though they have been living in the house for only 14 years, they originally purchased the home from another young couple, who had purchased the home new and lived in it for 2 years before the husband's job transferred him to New York. Therefore the house is 16 years old. The home is a single-level 1,192 square foot home with no attic, basement or garage. Mr. and Mrs. Smith have heard about the new program that rewards households for low-emissions lifestyles and after Mrs. Smith researches the program more, they are interested in applying.

- *Mrs. Smith calls a local, small business that specializes in home certifications for the program. The business "Johnson's Energy Certifiers," is owned and operated by Mr. Johnson, a long-time home inspector who went back to Durham Technical Community College to be retrained and certified to do energy audits for the program to certify homes.*

- *Mr. Johnson's appointment scheduler, a retired librarian from the local library, makes an appointment for Mr. Johnson to visit the Smith household to do a free initial consultation.*
- *Mr. Johnson and his two apprentices, both recent local high school graduates interested in the profession, accompany him to the consultation appointment at the Smith's home.*
- *Mr. Johnson spends two hours with the Smiths as he first gives a quick assessment of whether the home looks like it would qualify for the program or not. He gives the Smiths a thorough explanation of how the program works (the certification process, the registering of the home, how the market works, and other relevant information). Mr. Johnson uses a cellphone sized piece of equipment (or perhaps an application on his cellphone) to enter the size of the home (as told by the Smiths) and assuming several levels of efficiency of the house and internal equipment, Mr. Johnson gives estimates of how many credits/permits the home might earn on a monthly basis. He also explains the depreciation process.*

He explains that he charges \$600 for the full process of certification, including an initial \$175 to do the actual diagnostics on the house. The rest he says is used to cover other costs of the certification and the registration of their home. This cost does not include any technology or system upgrades that the Smiths might need or want. Mr. Johnson asks the Smith if they are interested in seeing if their home qualifies and interested in joining the program. Mr. Smith says he would like to think about it for a few days. Mr. Johnson gives the Smiths the packet of information and he and his apprentices leave.

- *Three days later, Mrs. Smith calls Johnson's Energy Certifiers back to tell them that they are interested in pursuing the program. The Smiths agree to an appointment the following week.*
- *Mr. Johnson and his two apprentices show up at the Smiths' home as scheduled the following week. They spend a couple of hours running a diagnostic on the home. It turns out that the home is in very good shape and has a HVAC system that is only three years old. However, there are a few places where the efficiency of the house could be improved. Johnson's Energy Certifiers entered all of the relevant information into the system to certify the home and has the Smiths sign the relevant paperwork. The household information is sent to the clearinghouse that connects to the local government database to verify information such as home size (since that is part of the credits calculation).*
- *Within 2 minutes of putting the information into the computer, information is returned to Mr. Johnson's laptop in plain sight for the Smiths to see. The reading shows that the house is certifiable and the square footage of 1,192 is correct. It also shows individual readings for every measurable system in the house. It shows that under the current configuration, the Smith's home will earn roughly 10,000 credits a month for the next year. The reading also shows several suggested improvements that could increase the number of credits generated.*

- *The Smiths showed some interest in the upgrades suggested on the diagnostic test and asked Mr. Johnson what the estimated costs would be of the upgrades. Mr. Johnson estimated the upgrades could be done for \$18,000 and have a useful credit life of at least 3 years – maybe more. The Smiths indicate that they don't have \$18,000 to invest in the upgrades. Mr. Johnson says that he knows a local bank that has an energy retrofit financing product and gave the Smiths the banker's information.*
- *The following day, the Smiths visit the banker. The banker pulls up the Smith's account on the clearinghouse and also does a credit check. She explains to the Smiths that the household credits will serve as collateral for the loan, so they need not put any money down. Based on the upgrades, the Smiths should receive roughly 12,500 credits a month. The repatriation credit market is pricing credits currently at 12-15 cents each. This means that the Smiths should expect to receive \$1,500-\$1,875 a month. The banker explains that there are some great solar leasing programs and the such, and that for a 39 month note at roughly 10%, the Smiths could pay about \$513 a month. The Smiths could even have the credits automatically deducted from their account for their monthly payment.*
- *The banker also explains that she has knows of a local firm, registered with the SEC, that the Smiths could talk to about managing their housing credits account. The Smiths remembered that Mr. Johnson had told them that there are firms that specialized in aggregating, selling and managing credits on behalf of households – much like a brokerage account or an investment adviser who helps the clients sell credits into the marketplace. This would simplify the experience for the Smiths. They could sell some or all of their credits monthly. Or they could bank their credits if they think the price might increase at a later time (even put them into an account for their two kids' college funds). Mr. Smith is a former banker and asks if they could buy credits as well. The banker says yes. Whenever, it was time to sell, or even buy, the Smiths could simply instruct their broker to do so. Or some systems would allow the Smiths to do so themselves online. The banker explains all the risks associated with the credits market and the Smiths are thankful for the conversation.*
- *A month later, after closing on the loan, the Smiths have had all of the upgrades suggested by the diagnostic test. They have found a broker for their credits account, though not the one the banker suggested. It turns out that Mr. Smith's long-time insurance agent and investment advisor had been certified in the credits space. The Smith household has been accepted into the marketplace and the house is generating credits monthly.*
- *Corporation XYZ is based in Anytown, USA and has been growing exponentially via a number of its foreign subsidiaries. The corporation's Treasurer anticipates record overseas profits for the year. Since there are not a great deal of new investment opportunities abroad currently, or in the foreseeable future, the Treasurer would like to repatriate some funds to do a dividend payment to shareholders or a stock buyback. In order to not flood the market with orders at the last minute that would drive the price of*

the repatriation credits up, the Treasurer has hired someone full time to follow the repatriation credits being traded on the Durham Social Exchange (DSE) and to buy blocks of credits at various times at prices that make sense to maximize the corporation's profits. Complex analytical software helps the analyst decide when to buy.

- *Other corporations are also seeking the same strategy. Based on the amount of funds they want to repatriate at the end of the year and at what tax rate, the firms know exactly how many credits they need to accumulate. The firm in Anytown wants to repatriate \$550 million at no more than 6.5% and must accumulate billions of credits, so it must buy them in major blocks from aggregators. It also hopes to buy some that it can bank for a few years since they think that credits are selling at a low cost. The credits trader has also been asked by the Treasurer to place a futures order for a block of credits at a certain price. However, the trend is that more and more corporations are seeing record profits overseas, so Corporation XYZ also has a strategy for investing in Repatriation (SCE) Bonds that focus on creating more certified housing. That is actually where the banks that are lending for the retrofits are accessing funds for their product – from the Bonds. Corporation XYZ knows that not only are the bonds a good financial return and guaranteed with future repatriation credits; but they will also increase the amount of credits on the market, that could help drive down the costs in the long-term.*
- *The Smiths decide to bank 20% of their monthly credits and sell the rest into the aggregate account. That is the setup, so the Smiths do not need to do anything but monitor their account. But they could change that breakdown at anytime and save or sell more credits. The Smith's credits are bought by Corporation XYZ monthly on the exchange. The Smiths save about 2,500 credits monthly (worth about \$350 monthly). They sell 10,000 a month (worth about \$1,400 monthly). After paying the retrofit note from the bank, they still have nearly \$900 extra a month to spend. Between the savings and the selling, the Smiths will make over \$15,000 a year just by putting their house into the repatriation marketplace.*
- *60 days prior to the 1 year anniversary of the Smith home being certified, they receive a letter in the mail indicating that it is almost time for their annual home inspection to recertify their credits. Mr. Johnson and his team returns to inspect the home. They use the same equipment they used before. Since all the new equipment from the previous year has a bar code on it, Mr. Johnson just has to scan it into his cellphone sized machine and the system does the calculations automatically. For the next year, the Smiths will receive roughly 12,000 credits monthly. A slight decrease from the current year because of decrease in efficiency based on the depreciate schedule of the equipment. This is still plenty to cover the note for the Smiths and to bank and sell the rest. Mr. Johnson tells the Smiths that he has heard that technology is being developed that would make their home a smart home and allow them to monitor the efficiency of the equipment in real time. This will allow the Smiths to know if a piece of equipment goes bad and loses credit generating power (and have it fixed) prior to the annual visit – as part of the smart grid. The annual housing emissions testing is mandatory to stay in the program. If the Smiths fail to do so, their credits would automatically stop at the end of 12 months and begin again once the inspection is done. The price is set by the State where the*

house is located and the state monitors to make sure the house gets its annual certification.

- *An efficient market between the seller and buyer of repatriation credits will exist.*
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Why this will drive a Marketplace

Most experts agree that the only way the United States is going to see a full economic recovery is by also seeing a recovery in the housing marketplace. With foreclosures at near record high levels and housing values at near record low levels, it is hard to fathom what it will take to make the housing market rebound. Under this model, houses would have new life. They would have a value base that goes beyond the local real estate market and is connected to a global marketplace (repatriation) that is in great demand.

This market would tie housing to a scarce resource – low repatriation tax rates. Several aspects of the housing market would simultaneously benefit at once. On one hand, millions of houses would become eligible for this marketplace; but not just any households, generally the households of America's lowest income citizens. We know that consumer spending drives most of domestic economic growth. We also know that it's the lower and middle income individuals that are most likely to spend additional income, as opposed to wealthier individuals who tend to save. Therefore, by putting this new source of income into the hands of the lower and middle income individuals it will help to drive consumer spending and the overall economy. To ensure that no one feels like there is an abuse of the system, the program could be set up similar to that of the Earned Income Tax Credit, meaning that an individual has to be either working to receive the credits or qualified for unemployment payments. This would not have to be the case, but might address political opposition to the idea based on the idea that people will simply sit in their small homes and collect these credits for sale without working. For those not working and not

qualified for unemployment – but perhaps qualified for public assistance – the credits could go into an education account and be able to be converted for tuition and living expenses as long as they are enrolled in school full-time. These are simply ideas and would obviously need to be fleshed out. But this would move closer to the idea that those who emit the least amount of carbon emissions would be compensated for doing so. Again, anyone who makes their primary residence a home that qualifies, regardless of their income status, would be able to take part in this program equal to anyone else. It will be totally agnostic when it comes to where the credits originate from as long as it was a certified property.

The second aspect of this model that would benefit the economy, besides the purchasing power of individuals increasing, is the rising value of the houses themselves. All of a sudden, the price of a house would be determined not only by its location but also by its “credit” generating capacity. This would achieve the long-ago goal of being able to factor in energy efficiency upgrades of the home to new owners as the home is resold. Because the credits would collateralize the retrofit loan, it would not face some of the same challenges that arose from Fannie Mae, Freddie Mac, and financial institutions opposing the PACE (Property Assessment Clean Energy) program. Since the credits are the collateral, there would be no need for any property liens.

As the home value rose, hopefully above the associated debt, then it would again unleash the power of the house to be used as a means of sending children to college, doing home upgrades, and starting small businesses. Individuals who have job skills that fit a job thousands of miles away would no longer be immobilized by the inability to sell their homes.

The amount of credits granted to homes would be calculated to ensure that the amount being generated in the “repatriation credit” marketplace does not far exceed the amount in demand. As new housing is built, it can be automatically certified for the market and help determine the cost. The “cap” aspect of the “Cap-and-Trade” system would be at the individual household level. Each year or so, what is considered a standard emissions free home would be lowered. As other sources of credit generation come onboard, such as multifamily units and consumer spending, it would generate a way to continue to connect the America economy with the growth of foreign profits. This could create new jobs in America. The ownership of the credits by individuals who would convert them to capital and spend, coupled with low-transaction costs and entrepreneurs and companies vying to create the next generation of repatriation credit-generating best available technology would ensure a dynamic marketplace exists.

This is simply a concept for a long-term solution to the repatriation challenge. This concept is likely to find critics from both the political side as well as the corporate side. However, the government should welcome a model that incents corporations to repatriate money at regular intervals to America, while driving down greenhouse gas emissions from housing – one of the biggest sources of CO². Likewise, the corporations should like the fact that they have options that can stabilize the tax rate they pay to repatriate profits and that allow them to create strategies to target tax rates. Both should like the fact that a transparent and open free market would be the instrument used to determine the prices. The great news for the American public is that the more corporations try to reduce their tax rate for repatriated dollars, the more credits they can sell on the marketplace and for the environmentalist – the less emissions released into the atmosphere.

9 About the Author of this Paper: Henry C. McKoy, Jr.

Henry McKoy currently serves as Assistant Secretary for the North Carolina Department of Commerce. In this capacity, he oversees the Community Development Division which includes the Appalachian Regional Commission, Community Investment and Assistance, Community Planning, Rural Development, and Urban Development. These agencies manage over \$1 billion in capital and services across the state involved in infrastructure, housing, small business and entrepreneurship – principally for low-moderate income communities.

Prior to his appointment as part of Commerce's Cabinet, McKoy spent over 15 years in the banking and investment sector. He spent over a decade in retail and commercial banking for Central Carolina Bank, National Commerce Financial and Suntrust. During that time, he was an award-winning banker who grew and managed several multi-billion dollar business units for the bank. From 1995-2003 McKoy co-launched and managed what would grow to become the \$2.5 billion a year Central Processing business Unit. For several years after, he led the Cash Services Group which managed over \$17 billion a year for the bank across a 13 state, 1,600 branch and ATM network. McKoy has also served as founder and CEO of a boutique investment advisory firm focused on energy and sustainable industries. He also served as the President of CASS Intelligent Networks, an IT firm.

McKoy has served on over 45 national, statewide and local community boards over his career, including Responsible Endowments Coalition, NC Economic Development Board, NC Energy Policy Council, Southern Growth Policies Board, NC Council on Economic Education, NC Community College Foundation Board, NC Community College Investment Committee, Fayetteville State University School of Education Board, Fayetteville State University School of Business Board and many more.

A lifelong proponent of education, McKoy has worked in primary and secondary education, and is a former staff member of the University of North Carolina at Chapel Hill School of Education. He is also a former community college instructor where he taught banking and financial literacy. He and his family endowed a scholarship at Fayetteville State University in 2011 to support teacher education and training.

McKoy is a former Division I collegiate athlete at the University of North Carolina at Chapel Hill where he was a two-time All-ACC, two-time All-America, and NCAA Champion runner. McKoy was part of a number one world ranked relay team while at the university where he studied computer science and economics before graduating from the Kenan-Flagler Business School's two-year undergraduate program in just one year.

In June 2010, he completed the 3,004 mile Bike Race Across America (RAAM) as part of an 8-person DurhamCARES team raising money and awareness for 18 local charities.

McKoy, a 2003-2005 William C. Friday Fellow for Human Relations, is a sought after motivational speaker on topics ranging from energy finance to community development to adaptive change management. He resides in Durham with his wife and two children.

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